

850
NEW NO.

Interstate Commerce Commission
Washington, D.C.

No. 9-330A051

Date NOV 26 1979

Fee \$ 50.00

RECORDATION NO. 11083
NOV 26 1979 - 11 40 AM
Filed 1425
INTERSTATE COMMERCE COMMISSION

ICC Washington, D.C.

Gentlemen:

Enclosed for recordation under the provisions of 49 USC 11303 (formerly Section 20(c) of the Interstate Commerce Act), as amended, are the original and five counter parts of an Equipment Lease dated as of July 31, 1979.

A general description of the railroad rolling stock covered by the enclosed document is set forth in Schedule 1 attached to this letter and made a part hereof.

The names and addresses of the parties are:

Lessor: First National Bank of Louisville
101 South Fifth Street
Louisville, Kentucky 40232

Lessee: Consolidated Rail Corporation
1334 Six Penn Center Plaza
Philadelphia, Pennsylvania 19104

The undersigned is the Lessor mentioned in the enclosed document and has knowledge of the matters set forth therein.

Please return the original and four copies of the Equipment Lease to Michael G. McGee, Esq., Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603.


Also enclosed is a check in the amount of covering the required fee.

Very truly yours,

CONSOLIDATED RAIL CORPORATION

By

Its


Asst. Treas. Fin. & Colls.

Enclosures

RECEIVED
NOV 26 11 27 AM '79
FEE COLLECTION BR.
I.C.C.

Counterpart — C.T. Kynard

SCHEDULE 1

DESCRIPTION OF ITEMS OF EQUIPMENT

<u>Number of Items</u>	<u>Description</u>	<u>Manufacturer and Manufacturer's Identification Nos.</u>
13	Backhoes	J. I. Case Co. EF 5617 to 5629
4	H1 Rail Truck Cranes	Stanley H. Smith & Co. CT 1553 to 1556
2	Crawler Cranes	Stanley H. Smith & Co. CC 1052 to 1053
3	Rerailling Cranes	Pettibone Ohio Corp. S 3065 to 3067
4	Switch Tampers	Plasser American Corp. MP 5042 to 5045
3	Ballast Regulators	Plasser American Corp. BR 1297 to 1299
6	Spike Pullers	Rexnord Inc. SP 2115 to 2120
10	Push Trucks	Quaker RR Equipment Sales Corp. PL 1502 to 1511
2	Track Scrap Picker	Holley Engineering Company TR 3002 to 3003
2	Rotary Dump Trucks	Bankhead Enterprises ET 2004 to 2005
7	Excavators	Stewart Equipment Company EG 3004 to 3010
7	H1 Rail Gears	Bankhead Enterprises EG 3004 to 3010

Interstate Commerce Commission
Washington, D.C. 20423

OFFICE OF THE SECRETARY

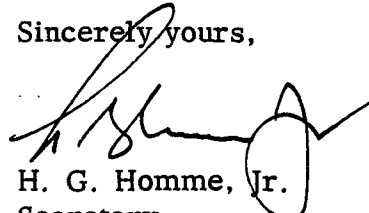
Michael G. McGee, Esq.
Chapman and Cutler
111 West Monroe Street
Chicago, Illinois 60603

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C.

11303, on 11/26/79 at 11:40AM, and assigned recordation number(s). 11083.

Sincerely yours,



H. G. Homme, Jr.
Secretary

Enclosure(s)

SE-30
(3/79)

RECORDATION NO. 11083
NOV 26 1979 - 11 40 AM
INTERSTATE COMMERCE COMMISSION

EQUIPMENT LEASE

Dated as of July 31, 1979

Between

First National Bank of Louisville

LESSOR

And

Consolidated Rail Corporation

LESSEE

(Conrail 79-1)
(Maintenance of Way Equipment)

This Lease and certain of the sums due and to become due hereunder have been assigned to, and are subject to a security interest in favor of, Central Penn National Bank, as Secured Party, pursuant to a Security Agreement-Trust Deed dated as of July 31, 1979 from First National Bank of Louisville to said Secured Party. Information concerning such security interest may be obtained from said Secured Party at its principal office at 5 Penn Center Plaza, Philadelphia, Pennsylvania 19103.

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Attachments to Equipment Lease:

Schedule A - Description of Items of Equipment
Schedule B - Certificate of Acceptance
Schedule C - Schedule of Casualty Value

EQUIPMENT LEASE

THIS EQUIPMENT LEASE dated as of July 31, 1979 between First National Bank of Louisville, a national banking association (the "Lessor"), and Consolidated Rail Corporation ("Conrail"), a Pennsylvania corporation (the "Lessee");

R E C I T A L S:

A. Pursuant to a Purchase Order Assignment dated as of July 31, 1979, the Lessee has assigned to the Lessor its right to purchase the Equipment referred to below.

B. The Lessee and the Lessor intend to enter into a Participation Agreement dated as of July 31, 1979 (the "Participation Agreement") with Central Penn National Bank (the "Note Purchaser") providing for the commitment of the Note Purchaser which, together with funds provided by the Lessor, will permit the Lessor to obtain the funds necessary to purchase the equipment (collectively the "Equipment" and individually an "Item of Equipment") described in Schedule A hereto and made a part hereof. The Lessor will commit to advance an amount equal to 41.7792% of the Purchase Price of each Item of Equipment and the Note Purchaser will commit to purchase the Secured Notes (the "Notes") of the Lessor in an amount equal to 58.2208% of each Item of Equipment. It is contemplated that the Participation Agreement will provide that the Notes will be secured by an assignment of the Lessor's right, title and interest in and to this Lease and in and to the Equipment pursuant to a Security Agreement dated as of July 31, 1979 (the "Security Agreement") from the Lessor to the Note Purchaser.

SECTION 1. LEASE AND DELIVERY OF EQUIPMENT.

1.1. Intent to Lease and Hire. Upon delivery of each Item of Equipment by the manufacturers and suppliers listed in Schedule A hereto, (hereinafter referred to collectively as the "Manufacturers" and individually as a "Manufacturer"), the Lessee shall lease and the Lessor shall hire to the Lessee such Item of Equipment for the rental and on and subject to the terms and conditions herein set forth.

1.2. Inspection and Acceptance. The Lessor will cause each Item of Equipment to be tendered to the Lessee at the place of delivery set forth in Schedule A. Upon such tender, the Lessee will cause an inspector designated and authorized by the Lessee to inspect the same, and, if such Item of Equipment is found to be in good order, to accept delivery of such Item of Equipment and to execute and deliver to the Lessor and the Manufacturer thereof a Certificate of Acceptance (the "Certificate of Acceptance") in the form attached hereto as Schedule B with respect to such Item of Equipment; provided, however, that the Lessee shall not accept

and the Lessor shall have no obligation to lease any Item of Equipment delivered after the Outside Delivery Date set forth in Schedule A.

1.3. Certificate of Acceptance. The Lessee's execution and delivery of a Certificate of Acceptance with respect to each Item of Equipment pursuant to Section 1.2 hereof shall conclusively establish that, as between the Lessor and the Lessee, but without limiting or otherwise affecting the Lessee's or the Lessor's rights, if any, against the Manufacturer thereof, such Item of Equipment is acceptable to and accepted by the Lessee under this Lease, notwithstanding any defect with respect to design, manufacture, condition or in any other respect, and that such Item of Equipment is in good order and condition and appears to conform to the specifications applicable thereto and to all applicable United States Department of Transportation and Interstate Commerce Commission requirements and specifications, if any, and to all standards recommended by the Association of American Railroads applicable to new railroad equipment of the character of the Equipment as of the date of this Lease. By execution and delivery of such Certificate of Acceptance, the Lessee represents that it has no knowledge of any such defect.

SECTION 2. RENTALS AND PAYMENT DATES.

2.1. Rent for Equipment. The Lessee agrees to pay the Lessor the following rent for each Item of Equipment:

(a) Interim Rental. For each Item of Equipment, an amount per day (the "Interim Rental") equal to 0.0430556% of the Purchase Price thereof for the period, if any, from the Closing Date (as defined in the Participation Agreement) for such Item of Equipment to, but not including, January 3, 1980 (the "Term Lease Commencement Date"); and

(b) Fixed Rental. For each Item of Equipment, 28 quarterly installments of fixed rental (the "Fixed Rental"), payable in arrears, each in an amount equal to 4.11244% of the Purchase Price thereof.

2.2. Rent Payment Dates. The installment of Interim Rental for each Item of Equipment shall be due and payable on the Term Lease Commencement Date. The first installment of Fixed Rental for each Item of Equipment shall be due and payable three months following the Term Lease Commencement Date and the balance of said installments shall be payable at three month intervals thereafter with the final such installment payable seven years following the Term Lease Commencement Date. If any of the rent payment dates is not a business day, the rent payment

otherwise payable on such date shall be payable on the next succeeding business day. For purposes of this Lease, the term "business day" means calendar days, excluding Saturdays, Sundays and holidays on which banks in the Commonwealth of Pennsylvania, or the State of Illinois or the Commonwealth of Kentucky are authorized or required to close.

2.3. Adjustment of Rentals. In determining the amount of each installment of Fixed Rental payable pursuant to Section 2.1 hereof, the Lessor and the Lessee have assumed that the interest rate on the Notes for the entire quarterly period ending on the date of payment of such installment of Fixed Rental, will be 11% per annum. In the event that the rate of interest payable on the Notes for such quarterly installment shall vary from 11% per annum, the Lessor and the Lessee agree that such installment of Fixed Rental shall be increased or decreased in an amount equal to the difference between (a) the amount of interest accrued and payable on the Notes for such quarterly installment, minus (b) the amount of interest which would have accrued and been payable on the Notes for such quarterly installment period had the interest rate on the Note for such quarterly installment period been equal to 11% per annum computed on a 30 day month 360 day year basis. Such difference as calculated in the preceding sentence shall result in a reduction in the Fixed Rental if negative, and shall result in an increase in the Fixed Rental if positive.

2.4. Place and Manner of Rent Payment. The payments to be made by the Lessee under this Lease shall be made as follows:

(a) The installment of Interim Rental shall be paid to the Lessor by wire transfer to the principal office of the Lessor at the address thereof provided for payments in Section 20.1 hereof; provided that in the event either the Lessor or the Note Purchaser shall notify the Lessee in writing that the right to receive payment of such installment shall have been assigned in accordance with Section 16 hereof, the Lessee shall make such payment by wire transfer to the place designated in such notice or as otherwise designated from time to time in writing by such assignee;

(b) The portion of any installment of Fixed Rental resulting from an increase in the amount thereof, if any, which the Lessee shall agree to pay to the Lessor pursuant to any rental adjustment arrangements (other than those adjustments required by Section 2.3 hereof) shall be paid in full to the Lessor by wire transfer to the principal office of the Lessor at the address provided for payments in Section 20.1 hereof;

(c) Each installment of Fixed Rental shall be paid to the Lessor by wire transfer to the principal office of the Lessor at the address thereof provided for payments in Section 20.1 hereof; provided that in the event either the Lessor or the Note Purchaser shall notify the Lessee in writing that the right to receive payment of such installment shall have been assigned in accordance with Section 16 hereof, the Lessee shall make such payment by wire transfer to the place designated in such notice or as otherwise designated from time to time in writing by such assignee; and provided further that in the event such notice shall direct the Lessee to divide such installment into not more than two portions, in addition to the portion referred to in Section 2.3(b) hereof, and to pay each portion by wire transfer separately to not more than two parties, the Lessee agrees to do so;

(d) The entire amount of any payment of Casualty Value pursuant to Section 11 hereof shall be paid to the Lessor by a check drawn on a bank located in the continental United States (identifying the same as a payment of Casualty Value relating to Conrail No. 79-1) and forwarded to the Lessor in the manner provided for notice in Section 20.1 hereof; provided that in the event either the Lessor or the Note Purchaser shall notify the Lessee in writing that the right to receive payment of such Casualty Value shall have been assigned in accordance with Section 16 hereof, the Lessee shall make such payment by such check in the manner designated in such notice or as otherwise designated from time to time in writing by such assignee;

(e) The amount of any payment owing to the Lessor pursuant to Sections 6, 10.2, 11.1 (with respect to public liability insurance) and 20.2 hereof shall be made directly to the party to receive the same without regard to the assignment of this Lease pursuant to Section 16 hereof;

(f) The amount of any interest due in respect of the late payment of any rentals or other amounts pursuant to Section 19 hereof shall be paid to the party and in the manner (including wire transfer) herein provided to receive said rental or other amount; and

(g) All payments other than those above specified shall be made by the Lessee directly to the party to receive the same unless any such payment has previously been made by the Lessor or its assignee, in which case the Lessee shall reimburse the Lessor or its assignee, as the case may be, directly for such payment.

The Lessee agrees that it will make payments due hereunder by wire transfer where specified above at the opening of business of the office of the transferring bank on the due date of such

payment of Federal or otherwise immediately available funds to the party to whom such payment is to be made, and where not so specified, such payment shall be made by check of the Lessee drawn on a bank located in the continental United States and mailed to the party to receive the same at the address herein provided or at such other address as the Lessee shall have been previously advised in writing.

2.5. Net Lease. This Lease is a net lease and the Lessee's obligation to pay all Interim Rental and Fixed Rental and other amounts payable hereunder shall be absolute and unconditional under any and all circumstances and, without limiting the generality of the foregoing, the Lessee shall not be entitled to any abatement of rent or reduction thereof or setoff against rent, including, but not limited to, abatements, reductions or setoffs due to any present or future claims of the Lessee against the Lessor under this Lease or otherwise or against any assignee of the Lessor pursuant to Section 16 hereof; nor, except as otherwise expressly provided herein, shall this Lease terminate, or the respective obligations of the Lessor or the Lessee be otherwise affected, by reason of any defect in or damage to or loss or destruction of any or all of the Equipment or requisitioning of the Equipment by condemnation or otherwise, the lawful prohibition of Lessee's use of the Equipment, the interference with such use by any private person or corporation, the invalidity or unenforceability or lack of due authorization or other infirmity of this Lease, or lack of right, power or authority of the Lessor to enter into this Lease, or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, it being the intention of the parties hereto that the rents and other amounts payable by the Lessee hereunder shall continue to be payable in all events unless the obligation to pay the same shall be terminated pursuant to Section 11 hereof, or until, pursuant to Section 13 hereof, the Equipment has been returned to the possession of the Lessor (for all purposes of this Lease any Item of Equipment shall not be deemed to have been returned to the Lessor's possession until all of the Lessee's obligations with respect to the return, transportation and storage thereof have been performed). To the extent permitted by applicable law, the Lessee hereby waives any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender the lease of any of the Items of Equipment except in accordance with the express terms hereof. Each rental or other payment made by the Lessee hereunder shall be final and the Lessee shall not seek to recover all or any part of such payment from the Lessor or any assignee pursuant to Section 16 hereof for any reason whatsoever.

SECTION 3. TERM OF THE LEASE.

The term of this Lease as to each Item of Equipment shall begin on the date of the delivery to and acceptance by

the Lessee of such Item of Equipment and, subject to the provisions of Sections 11, 14 and 18 hereof, shall terminate seven years following the Term Lease Commencement Date provided for in Section 2.1(a) hereof.

SECTION 4. OWNERSHIP AND MARKING OF EQUIPMENT.

4.1. Retention of Title. The Lessor, as between the Lessor and the Lessee, shall and hereby does retain full legal title to the Equipment notwithstanding the delivery thereof to and possession and use thereof by the Lessee.

4.2. Duty to Number and Mark Equipment. The Lessee will cause each Item of Equipment to be kept numbered with its identification number as set forth in Schedule A hereto and will keep and maintain, plainly, distinctly, permanently and conspicuously marked by a plate or stencil printed in contrasting color upon each side of each Item of Equipment in letters not less than one inch in height as follows:

"Leased from First National Bank of Louisville,
as Owner, and Subject to a Security Interest"

with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect the title of the Lessor to such Item of Equipment, its rights under this Lease and the rights of any assignee under Section 16 hereof. The Lessee will not place any such Item of Equipment in operation or exercise any control or dominion over the same until the required legend shall have been so marked on both sides thereof and will replace promptly any such names and word or words which may be removed, defaced or destroyed. The Lessee will not change the identification number of any Item of Equipment except with the consent of the Lessor and in accordance with a statement of new identification numbers to be substituted therefor, which consent and statement previously shall have been delivered to the Lessor by the Lessee and filed, recorded or deposited in all public offices where this Lease shall have been filed, recorded or deposited.

4.3. Prohibition Against Certain Designations. Except as above provided, the Lessee will not allow the name of any person, association or corporation to be placed on the Equipment as a designation that might be interpreted as a claim of ownership; provided, however, that the Lessee may cause the Equipment to be lettered with the names or initials or other insignia customarily used by the Lessee or its affiliates on railroad equipment used by it of the same or a similar type for convenience of identification of the right of the Lessee to use the Equipment under this Lease.

SECTION 5. DISCLAIMER OF WARRANTIES.

THE LESSOR LEASES THE EQUIPMENT, AS-IS, IN WHATEVER CONDITION IT MAY BE, WITHOUT ANY AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, BY THE LESSOR EXPRESSLY DISCLAIMING ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO (A) THE FITNESS FOR ANY PARTICULAR PURPOSE OR MERCHANTABILITY OF ANY ITEM OR ITEMS OF EQUIPMENT, (B) THE LESSOR'S TITLE THERETO, (C) THE LESSEE'S RIGHT TO THE QUIET ENJOYMENT THEREOF, (D) THE DESIGN OR CONDITION OF, OR AS TO THE QUALITY OF THE MATERIAL, EQUIPMENT OR WORKMANSHIP IN, THE EQUIPMENT, OR (E) ANY OTHER MATTER WHATSOEVER, IT BEING AGREED THAT ALL SUCH RISKS, AS BETWEEN THE LESSOR AND THE LESSEE, ARE TO BE BORNE BY THE LESSEE. The Lessor hereby appoints and constitutes the Lessee its agent and attorney-in-fact during the term of this Lease to assert and enforce, from time to time, in the name and for the account of the Lessor and the Lessee, as their interests may appear, but in all cases at the sole cost and expense of the Lessee, whatever claims and rights the Lessor may have as owner of the Equipment against the Manufacturers, provided, however, that if at any time an Event of Default shall have occurred and be continuing, the Lessor may assert and enforce, at the Lessee's sole cost and expense, such claims and rights. The Lessor shall have no responsibility or liability to the Lessee or any other person with respect to any of the following: (i) any liability, loss or damage caused or alleged to be caused directly or indirectly by any Item of Equipment or by any inadequacy thereof or deficiency or defect therein or by any other circumstances in connection therewith; (ii) the use, operation or performance of any Item of Equipment or any risks relating thereto; (iii) any interruption of service, loss of business or anticipated profits or consequential damages; or (iv) the delivery, operation, servicing, maintenance, repair, improvement or replacement of any Item of Equipment. The Lessee's delivery of a Certificate of Acceptance shall be conclusive evidence as between the Lessee and the Lessor that all Items of Equipment described therein are in all the foregoing respects satisfactory to the Lessee, and the Lessee will not assert any claim of any nature whatsoever against the Lessor based on any of the foregoing matters.

SECTION 6. LESSEE'S INDEMNITY.

6.1. Scope of Indemnity. The Lessee shall defend, indemnify and save harmless the Lessor and any assignee of the Lessor pursuant to Section 16 hereof (including, without limitation, the Note Purchaser) and their respective successors and assigns from and against:

(a) any and all loss or damage to the Equipment, usual wear and tear excepted; and

(b) any claim, cause of action, damages, liability, cost or expense (including, without limitation, counsel

fees and costs in connection therewith) which may be incurred in any manner by or for the account of any of them (i) relating to any Item of Equipment or any part thereof, including, without limitation, the construction, purchase, delivery, acceptance, rejection, ownership, sale, leasing, return or storage of any Item of Equipment or as a result of the use, maintenance, repair, replacement, operation or the condition thereof (whether defects are latent or discoverable by the Lessee or any indemnified party), (ii) by reason or as the result of any act or omission (whether negligent or otherwise) of the Lessee for itself or as agent or attorney-in-fact for the Lessor hereunder, (iii) as a result of claims for patent, trademark or copyright infringements, or (iv) as a result of claims for negligence or strict liability in tort.

The indemnities and assumptions of liabilities set forth in this Section 6.1 do not guarantee to any party at any time a residual value in the Equipment nor do they guarantee the payment of the Notes or any interest accrued thereon.

6.2. Continuation of Indemnities and Assumptions.

The indemnities and assumptions of liability in this Section 6 contained shall continue in full force and effect notwithstanding the termination of this Lease, or the termination of the term hereof in respect of any one or more Items of Equipment, whether by expiration of time, by operation of law or otherwise; provided, however, that such indemnities and assumptions of liability shall not apply in respect of any matters referred to in subsection (a) or clause (i), (ii) or (iv) of subsection (b) of Section 6.1 hereof, occurring after the termination of this Lease, except for any such matters occurring after the termination arising in connection with the Lessee's assembling, delivering, storing or transporting of the Equipment as provided in Section 13 or 15, as the case may be. The Lessee shall be entitled to control, and shall assume full responsibility for, the defense of such claim or liability.

SECTION 7. RULES, LAWS AND REGULATIONS.

The Lessee agrees to comply with all governmental laws, regulations, requirements and rules (including, without limitation, any applicable rules of the United States Department of Transportation, the Interstate Commerce Commission and the Association of American Railroads) with respect to the use and maintenance of each Item of Equipment subject to this Lease, but the Lessee shall not be required to comply with such laws, regulations, requirements and rules so long as it shall, in good faith and by appropriate

legal proceedings contest the validity thereof in any reasonable manner which will not affect or endanger the title and interest of the Lessor, the condition of the Equipment or the security interest or other rights of any assignee under Section 16 hereof in and to the Equipment. In case any equipment or appliance is required to be altered, added, replaced or modified on any Item of Equipment in order to comply with such laws, regulations, requirements and rules, the Lessee agrees to make such alterations, additions, replacements and/or modifications at its own expense and title thereto shall be immediately vested in the Lessor. In the event the Lessee shall make any addition to any Item of Equipment pursuant to this Section 7 not requiring a replacement of any part or parts found on the Item when originally delivered to the Lessee (the "Alterations"), the Lessor agrees that if in the reasonable opinion of the Lessor the cost thereof is to be included in gross income of the Lessor for Federal income tax purposes, it will in the taxable year when the Alterations are made include the cost thereof in its gross income. The Lessee agrees that, within 30 days after the close of any calendar quarter in which the Lessee has made Alterations, the Lessee will give written notice thereof to the Lessor describing, in reasonable detail, the Alterations and specifying the cost thereof with respect to each Item of Equipment and the date or dates when made.

SECTION 8. USE AND MAINTENANCE OF EQUIPMENT.

The Lessee shall use the Equipment only in the manner for which it was designed and intended and so as to subject it only to ordinary wear and tear. The Lessee shall, at its own cost and expense, maintain and keep the Equipment in as good order, condition and repair as when originally received by it, ordinary wear and tear only excepted. Except as required by the provisions of Section 7 hereof, the Lessee shall not modify any Item of Equipment without the prior written authority and approval of the Lessor and any assignee pursuant to Section 16 hereof, which authority and approval shall not be unreasonably withheld. Any parts installed or replacements made by the Lessee upon any Item of Equipment pursuant to Section 7 hereof or pursuant to its obligation to maintain and keep the Equipment in good order, condition and repair under this Section 8 shall be considered accessions to such Item of Equipment and title thereto shall be immediately vested in the Lessor without cost or expense to the Lessor. The Lessee shall make no other additions or improvements to any Item of Equipment unless the same are readily removable without causing material damage and shall replace on the Item of Equipment any part removed or replaced as a result of any addition or improvement made pursuant to this Section 8 so as to return such Item to the Lessor in such condition as to meet all specifications of such Item as originally delivered to the Lessor, ordinary

wear and tear and permanent improvements only excepted. If the Lessee shall at its cost cause such readily removable additions or improvements to be made to any Item of Equipment, the Lessee agrees that it will, prior to the return of such Item of Equipment to the Lessor hereunder, remove the same at its own expense without causing material damage to such Item of Equipment. Title to any such readily removable additions or improvements shall remain with the Lessee.

SECTION 9. LIENS ON THE EQUIPMENT.

The Lessee shall pay or satisfy and discharge any and all claims against, through or under the Lessee and its successors or assigns which, if unpaid, might constitute or become a lien or a charge upon any Item of Equipment, and any liens or charges which may be levied against or imposed upon any Item of Equipment as a result of the failure of the Lessee to perform or observe any of its covenants or agreements under this Lease and any other liens or charges which arise by virtue of claims against, through or under any other party other than the Lessor, but the Lessee shall not be required to pay or discharge any such claims so long as it shall, in good faith and by appropriate legal proceedings contest the validity thereof in any reasonable manner which will not affect or endanger the title and interest of the Lessor or the security interest or other rights of any assignee under Section 16 hereof in and to the Equipment. The Lessee's obligations under this Section 9 shall survive the termination of this Lease.

Without limiting the foregoing, the Lessee further agrees that it will keep each Item of Equipment free and clear of any liens, charges, encumbrances or claims of the owner or owners of any interest in any units of railroad rolling stock to which any such Item of Equipment may at any time be attached or affixed and of any purchasers of or present or future creditors obtaining a lien on such unit or units of rolling stock, and the Lessee will permit an Item of Equipment to be attached or affixed to a unit of rolling stock only in a manner so as to permit such Item to be readily removable from such unit of rolling stock without material damage to such Item or to such unit of rolling stock and without diminishing or impairing the value or utility of such Item or the value or utility such unit of rolling stock would have had at such time had such Item not been so attached or affixed.

SECTION 10. FILING; PAYMENT OF STATE AND LOCAL TAXES.

10.1. Filing. Prior to the delivery and acceptance of the first Item of Equipment hereunder, the Lessee will cause this Lease and the Security Agreement: (i) to be duly filed, deposited, registered or recorded with the Interstate Commerce Commission in accordance with 49 U.S.C. 11303 (formerly Section 20c of the Interstate Commerce Act), (ii) to be recorded pursuant to the

The Corporation Security Registration Act, The Personal Property Security Act and deposited with the Registrar General of Canada of the Province of Ontario, Canada, (iii) to be filed pursuant to the Uniform Commercial Codes of the states of Kentucky and Pennsylvania, (iv) to have the interest of the Lessor and the Note Purchaser noted on the title certificates of all Equipment properly covered by vehicle titling acts, and (v) to be duly filed and recorded in such other places within or without the United States as the Lessor or the Note Purchaser may reasonably request and will furnish the Lessor and the Note Purchaser proof thereof. The Lessee will, from time to time, do and perform any other act and will execute, acknowledge, deliver, file, register and record (and will refile, reregister or rerecord whenever required) any and all further instruments required by law or reasonably requested by the Lessor or the Note Purchaser, for the purpose of protecting the Lessor's title to, or the Note Purchaser's security interest in, any Item of Equipment to the satisfaction of the Lessor's or the Note Purchaser's counsel or for the purpose of carrying out the intention of this Lease, and in connection with any such action, will deliver to the Lessor and the Note Purchaser proof of such filings and an opinion of the Lessee's counsel reasonably satisfactory to the Lessor and the Note Purchaser that such action has been properly taken. The Lessee will pay all costs, charges and expenses incident to any such filing, refiling, recording and rerecording or depositing and redepositing of any such instruments or incident to the taking of such action.

10.2. Payment of State and Local Taxes. All payments to be made by the Lessee hereunder will be free of expense to the Lessor and any assignee of the Lessor pursuant to Section 16 hereof (including, without limitation, the Note Purchaser) and their respective successors and assigns (the "Indemnitees") for collection or other charges and will be free of expense to the Indemnitees with respect to any Impositions as hereinafter defined. As used in this Section 10.2 "Impositions" shall mean the amount of any local, state, Federal or foreign taxes, assessments or license fees and any charges, fines or penalties in connection therewith which are imposed on or measured by this Lease or the receipt of sums pursuant hereto or any sale, rental, use, payment, shipment, delivery or transfer of title in respect of the Equipment under the terms hereof, the Security Agreement or the Purchase Order Assignment and the Purchase Agreements (defined therein); provided that Impositions shall not include as to each respective Indemnatee: (i) United States Federal income tax liability and, to the extent that any respective Indemnatee receives credit therefor against its United States Federal income tax liability, any foreign income tax of such Indemnatee, payable by any respective Indemnatee in consequence of the receipt of payments provided herein; and (ii) the aggregate of all franchise taxes measured by net income based on such receipts, up to the amount in the aggregate of any such income and franchise taxes which would be payable to the state and city in which such Indemnatee has its principal place of business without apportionment to any other state, except any such tax

which is in substitution for or relieves the Lessee from the payment of taxes which it would otherwise be obligated to pay or reimburse as herein provided. The Lessee agrees to pay, on demand, any and all Impositions. The Lessee will also pay promptly all Impositions which may be imposed upon any Item of Equipment from, through or under the Lessee or through the Lessee's use of the Equipment and will keep at all times all and every part of such Item of Equipment free and clear of all Impositions which might in any way affect the interest of any Indemnatee therein or result in a lien upon any such Item of Equipment; provided, however, that the Lessee shall be under no obligation to pay any Impositions so long as it is contesting in good faith and by appropriate legal proceedings such Impositions and the nonpayment thereof does not, in the reasonable opinion of the Indemnatee, adversely affect the interest of any Indemnatee hereunder or under the Security Agreement. If any Impositions shall have been charged or levied against any Indemnatee directly and paid by such Indemnatee after such Indemnatee shall have given written notice thereof to the Lessee and the same shall have remained unpaid for a period of ten business days thereafter, the Lessee shall reimburse such Indemnatee on presentation of invoice therefor. Prior to making such payment, such Indemnatee shall promptly notify the Lessee of the Impositions charged or levied, and the Lessee shall have the opportunity to contest in good faith and by appropriate legal proceedings such Impositions, at its sole expense.

In the event any reports with respect to Impositions are required to be made on the basis of individual Items of Equipment, the Lessee will either prepare and file such reports in such manner as to show as required the interests of each Indemnatee in such Items of Equipment or, if it shall not be permitted to file the same, it will notify each Indemnatee of such reporting requirements, prepare such reports in such manner as shall be satisfactory to each Indemnatee and deliver the same to each Indemnatee within a reasonable period prior to the date the same is to be filed.

In the event that, during the continuance of this Lease, any Imposition accrues or becomes payable or is levied or assessed (or is attributable to the period of time during which this Lease is in existence) which the Lessee is or will be obligated to pay or reimburse, pursuant to this Section 10.2, such liability shall continue, notwithstanding the expiration of this Lease, until all such Impositions are paid or reimbursed by the Lessee.

SECTION 11. INSURANCE; PAYMENT FOR CASUALTY OCCURRENCE.

11.1. Insurance. The Lessee will, at all times prior to the return of each Item of Equipment to the Lessor (including during storage periods), at its own expense, cause to be carried

and maintained casualty insurance and public liability insurance in respect of each Item of Equipment at the time subject hereto. Such insurance shall provide coverage against such risks, in such amounts and on such terms and conditions as are satisfactory to the Lessor and the Note Purchaser, and, in any event, such insurance shall be not less comprehensive with respect to maximum coverage and deductible amounts or with respect to risks than is customarily insured against by the Lessee in respect of similar equipment owned or leased by it, but in no event shall such coverage be for amounts or against risks less than or with deductibles greater than the prudent industry standard for major Class I line-haul railroads. Notwithstanding the foregoing, the Casualty Value of all Equipment at any given time may be less than what the deductible would be under the foregoing standard, but such fact shall not relieve Lessee of its duties to maintain casualty insurance coverages or to comply with the other obligations of this Section. All policies with respect to such insurance shall name the Lessor and the Note Purchaser as additional named insureds or loss payees, as their interests may appear, shall provide for at least 30 days' prior written notice by the insurance carrier to the Lessor, in the event of cancelation, expiration or amendment (and the Lessee shall provide 30 days' prior written notice to the Lessor and the Note Purchaser in any such event), shall include waivers by the insurer of all claims for premiums against the Lessor and the Note Purchaser and shall provide that losses are payable notwithstanding, among other things, any act of negligence of the Lessee, the Lessor or the Note Purchaser, more hazardous use or occupation of the Equipment than that permitted by such policies, any breach or violation by the Lessee, the Lessor or the Note Purchaser of any warranty, declaration, condition or other provision contained in any such policy, or foreclosure, notice of sale or any other proceeding in respect of the Equipment, or any change in the title to or ownership of any of the Equipment. Each such insurance policy shall expressly provide that all the provisions thereof except the limits of liability (which shall be applicable to all insureds as a group) and liability for premiums (which shall be solely a liability of the Lessee) shall operate in the same manner as if they were a separate policy covering each insured and shall be primary without right of contribution from any insurance carried by the Lessor or the Note Purchaser. The Lessee shall, not later than June 15 of each year, commencing June 15, 1980, furnish to the Lessor and the Note Purchaser a certificate of an independent insurance broker or company acceptable to the Lessor and the Note Purchaser evidencing the maintenance of the insurance required hereunder and shall furnish certificates evidencing renewal 10 days prior to the expiration date of such policy or policies. If the Lessor shall receive any insurance proceeds or condemnation payments in respect of an Item of Equipment suffering a Casualty Occurrence, the Lessor shall, subject to the Lessee's having made payment of the Casualty Value in respect of such Item and provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred

and be continuing, pay such proceeds or condemnation payments to the Lessee up to an amount equal to the Casualty Value with respect to such Item paid by the Lessee and any balance of such proceeds or condemnation payments shall remain the property of the Lessor. All insurance proceeds received by the Lessor in respect of any Item not suffering a Casualty Occurrence shall be paid to the Lessee upon proof satisfactory to the Lessor that any damage to such Item in respect of which such proceeds were paid has been fully repaired so as to comply with the provisions of this Section 11.1, provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing.

11.2. Duty of Lessee to Notify Lessor. In the event that any Item of Equipment shall be or become lost, stolen, destroyed, or, in the opinion of the Lessee, irreparably damaged during the term of this Lease or thereafter while such Item of Equipment is in the possession of the Lessee pursuant to Section 13 or 15 hereof, or shall be requisitioned or taken over by any governmental authority under the power of eminent domain or otherwise during the term of this Lease for a stated period which exceeds the then remaining term of this Lease (any such occurrence being hereinafter called a "Casualty Occurrence"), the Lessee shall promptly and fully (after it has knowledge of such Casualty Occurrence) inform the Lessor and any assignee of the Lessor pursuant to Section 16 hereof (including, without limitation, the Note Purchaser) in regard thereto and shall pay the Casualty Value (as defined in Section 11.6 hereof) of such Item in accordance with the terms of Section 11.3 hereof.

11.3. Sum Payable for Casualty Loss. The Lessee, on the next succeeding rent payment date following its notice of a Casualty Occurrence with respect to any Item or Items of Equipment, shall pay to the Lessor the Interim or Fixed Rental installment due on such payment date for such Item of Equipment plus any rentals or other sums due on or prior to such date then remaining unpaid plus a sum equal to the Casualty Value of such Item of Equipment as of the date of such payment.

11.4. Rent Termination. Upon (and not until) payment of all sums required to be paid pursuant to Section 11.3 hereof in respect of any Item or Items of Equipment, the obligation to pay rent for such Item or Items of Equipment accruing subsequent to the Casualty Value payment date shall terminate, but the Lessee shall continue to pay rent for all other Items of Equipment.

11.5. Disposition of Equipment. The Lessee shall, as agent for the Lessor, dispose of such Item or Items of Equipment having suffered a Casualty Occurrence as soon as it is able to do so for the best price obtainable. Neither the Lessee nor any person which is related to the Lessee (within the meaning of Section 318 of the Code) shall purchase the Item or Items either

directly or indirectly unless the price paid by either the Lessee or the purchaser related to the Lessee is equal to or in excess of the fair market value of the Item or Items or unless prior to such purchase the Lessee certifies in writing to the Lessor that any lesser price offered is equal to or greater than written bids for the Item or Items from not less than two other potential purchasers. Any such disposition shall be on an "as-is", "where-is" basis without representation or warranty, express or implied. As to each separate Item of Equipment so disposed of, so long as no Event of Default, or any event which with the lapse of time or the giving of notice, or both, would constitute such an Event of Default shall have occurred and be continuing and if the Lessee has paid the Lessor the full Casualty Value for the Item, the Lessee may retain all amounts arising from such disposition plus any insurance proceeds and damages received by the Lessee by reason of such Casualty Occurrence up to the Casualty Value attributable thereto and shall remit the excess, if any, to the Lessor. In disposing of such Item of Equipment, the Lessee shall make appropriate provision for any taxes, fees or charges applicable to the disposition and shall take such other action as the Lessor shall reasonably request to terminate any contingent liability which the Lessor might have arising after such disposition from or connected with such Item of Equipment.

11.6. Casualty Value. The Casualty Value of each Item of Equipment shall be an amount determined as of the date the Casualty Value is paid as provided in this Section 11 (and not the date of the Casualty Occurrence) equal to that percentage of the Purchase Price (as defined in the Participation Agreement) plus the amount of any Alteration included in gross income by the Lessor pursuant to Section 7 hereof of such Item of Equipment set forth in the Schedule of Casualty Value attached hereto as Schedule C opposite such date of payment.

11.7. Risk of Loss. The Lessee shall bear the risk of loss and, except as hereinabove in this Section 11 provided, shall not be released from its obligations hereunder in the event of any Casualty Occurrence to any Item of Equipment from and after the date hereof and continuing until payment of the Casualty Value and all rental installments and other sums due on and prior to the date of payment of such Casualty Value in respect of such Item of Equipment has been made, such Item or the salvage thereof has been disposed of by the Lessee and the title to such Item or the salvage thereof and all risk of loss and liabilities incident to ownership have been transferred to the purchaser of such Item or the salvage thereof.

11.8. Eminent Domain. In the event that during the term of this Lease the use of any Item of Equipment is requisitioned or taken by any governmental authority under the power of eminent domain or otherwise for an indefinite period or for a stated period which does not exceed the term of this Lease, the Lessee's obligation to pay all installments of rental and other

sums shall continue for the duration of such requisitioning or taking. So long as no Event of Default, or event which with the lapse of time or giving of notice, or both, shall have occurred and be continuing, the Lessee shall be entitled to receive and retain for its own account all sums payable for any such period by such governmental authority as compensation for requisition or taking of possession.

SECTION 12. ANNUAL REPORTS.

12.1. Duty of Lessee to Furnish. On or before the first May 1 which occurs more than four months following the date of this Lease, the Lessee will furnish to the Lessor and any assignee of the Lessor pursuant to Section 16 hereof (including, without limitation, the Note Purchaser) an accurate statement, as of the preceding December 31 (a) showing the amount, description and numbers of the Items of Equipment then leased hereunder, the amount, description and numbers of all Items of Equipment that may have suffered a Casualty Occurrence during the 12 months ending on such December 31 (or since the date of this Lease, in the case of the first such statement), and such other information regarding the condition or repair of the Equipment as the Lessor may reasonably request, and (b) stating that, in the case of all Equipment repainted during the period covered by such statement, the markings required by Section 4.2 hereof shall have been preserved or replaced.

12.2. Lessor's Inspection Rights. The Lessor and any assignee of the Lessor pursuant to Section 16 hereof (including, without limitation, the Note Purchaser) each shall have the right, at their respective sole cost and expense, by their respective authorized representative, to inspect the Equipment and the Lessee's records with respect thereto, at such time or times as shall be reasonably convenient to the Lessee.

SECTION 13. RETURN OF EQUIPMENT UPON EXPIRATION OF TERM.

Upon the expiration of the term of this Lease with respect to any Item of Equipment, the Lessee will, at its own cost and expense, at the request of the Lessor, remove the same from any unit of railroad rolling stock to which it is attached and deliver possession of such Item of Equipment to the Lessor at a reasonable storage place on the lines of the railroad operated by the Lessee as the Lessor may designate or in the absence of such designation, as the Lessee may select, and permit the Lessor to store such Item of Equipment at such place for a period not exceeding 60 days and transport the same at any time within such 60-day period to any reasonable place on any railroad lines on or adjacent to lines operated by the Lessee or to any connecting carrier for shipment, all as directed by the Lessor upon not less than 30 days' written notice to the Lessee. All movement and storage of each such Item is to be at the risk and expense of the

Lessee. During any such storage period the Lessee will permit the Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser of any such Item, to inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence of the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of the Lessor or any prospective purchaser, the rights of inspection granted under this sentence. Any amounts earned in respect of the Equipment after the date of expiration of this Lease, but not exceeding the rental, per diem, or other similar charge for equipment received therefor, shall belong to the Lessor and, if received by the Lessee, shall be promptly turned over to the Lessor. In the event any Item of Equipment is not assembled, delivered and stored as hereinabove provided within 30 days after the expiration of this Lease, the Lessee shall, in addition, pay to the Lessor for each day thereafter an amount equal to the amount, if any, by which the higher of (i) an amount equal to 0.03889% of the Purchase Price of such Item of Equipment, or (ii) the Fair Rental Value (determined in the manner provided in Section 18 hereof) for such Item for each such day exceeds the amount, if any, received by the Lessor (either directly or from the Lessee) for such day for such Item pursuant to the preceding sentence. The assembling, delivery, storage and transporting of the Equipment as hereinbefore provided are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee to so assemble, deliver, store and transport the Equipment.

SECTION 14. DEFAULT.

14.1. Events of Default. Any of the following events shall constitute an Event of Default hereunder:

(a) Default shall be made in the payment of any part of the rental or Casualty Value provided in Section 2 or 11 hereof and such default shall continue for five business days;

(b) The Lessee shall make or permit any assignment or transfer of this Lease, or of possession of the Equipment, or any portion thereof not permitted by this Lease;

(c) Default shall be made in the observance or performance of any other of the covenants, conditions and agreements on the part of the Lessee contained herein and such default shall continue for 30 calendar days after written notice from the Lessor to the Lessee, specifying the default and demanding the same to be remedied;

(d) Any representation or warranty made by the Lessee herein or in the Participation Agreement or the Purchase Order Assignment or in any statement or certificate furnished to the Lessor or the Note Purchaser pursuant to or in connection with this Lease, the Participation Agreement or the Purchase Order Assignment is untrue in any material respect as of the date of issuance or making thereof;

(e) Any proceedings shall be commenced by or against the Lessee for any relief which includes, or might result in, any modification of the obligations of the Lessee hereunder, under any bankruptcy or insolvency law or laws relating to the relief of debtors, readjustments of indebtedness, reorganizations, arrangements, compositions or extensions (other than a law which does not permit any readjustments of the obligations of the Lessee hereunder), and, unless such proceedings shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), all the obligations of the Lessee under this Lease shall not have been duly assumed in writing, pursuant to a court order or decree, by a trustee or trustees or receiver or receivers appointed for the Lessee or for the property of the Lessee in connection with any such proceeding in such manner that such obligations shall have the same status as obligations incurred by such trustee or trustees or receiver or receivers, within 30 days after such appointment, if any, or 60 days after such proceedings shall have been commenced, whichever shall be earlier; or

(f) A petition for reorganization under Section 77 of the Bankruptcy Act, as now constituted or as said Section 77 is at any time amended, whether pursuant to the Bankruptcy Reform Act of 1978 or subsequent amendments thereof, shall be filed by or against the Lessee and, unless such petition shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), all the obligations of the Lessee under this Lease shall not have been duly assumed in writing, pursuant to a court order or decree, by such trustee or trustees appointed in such proceedings in such manner that such obligations shall have the same status as obligations incurred by such trustee or trustees, within 30 days after such appointment, if any, or 60 days after such petition shall have been filed, whichever shall be earlier.

14.2. Remedies. If any Event of Default has occurred and is continuing, the Lessor or, in the event this Lease shall

be assigned to an assignee pursuant to Section 16 hereof, such assignee, at its option, may:

(a) Proceed by appropriate court action or actions, either at law or in equity, to enforce performance by the Lessee of the applicable covenants of this Lease or to recover damages for the breach thereof, including reasonable attorneys' fees; and/or

(b) By notice in writing to the Lessee, terminate this Lease, whereupon all right of the Lessee to the use of the Equipment shall absolutely cease and terminate as though this Lease had never been made, but the Lessee shall remain liable as hereinafter provided; and thereupon, the Lessor may by its agents enter upon the premises of the Lessee or other premises where any of the Equipment may be located and take possession of all or any of the Items of Equipment and thenceforth hold, possess and enjoy the same free from any right of the Lessee, or its successors or assigns, to use such Items for any purpose whatever, but the Lessor shall nevertheless have a right to recover from the Lessee any and all amounts which may have accrued to the date of such termination (computing the rental for any number of days less than a full rental period by multiplying the rental for such full rental period by a fraction of which the numerator is such number of days and the denominator is the total number of days in such full rental period) and also to recover forthwith from the Lessee (i) as damages for loss of the bargain and not as a penalty, whichever of the following amounts the Lessor, in its sole discretion, shall specify: (x) a sum with respect to each Item of Equipment which represents the excess of the present worth, at the time of such termination, of all rentals for such Item which would otherwise have accrued hereunder from the date of such termination to the end of the term of this Lease over the then present worth of the then Fair Rental Value of such Item for such period computed by discounting from the end of such term to the date of such termination rentals which the Lessor reasonably estimates to be obtainable for the use of such Item during such period, such present worth to be computed in each case on a basis of a 6% per annum discount, compounded quarterly from the respective dates upon which rentals would have been payable hereunder had this Lease not been terminated, or (y) an amount equal to the excess if any of the Casualty Value of such Item of Equipment as of the rent payment date on or immediately preceding the date of termination over the amount the Lessor reasonably estimates to be the Fair Market Value thereof at such time; provided, however, that in the event the Lessor shall have sold any Item of Equipment,

the Lessor, in lieu of collecting any amounts payable to the Lessor by the Lessee pursuant to the preceding clauses (x) and (y) of this part (i) with respect thereto may, if it shall so elect, demand that the Lessee pay the Lessor and the Lessee shall pay to the Lessor, on the date of such sale, as liquidated damages for loss of a bargain and not as a penalty, an amount equal to the excess, if any, of the Casualty Value of such Item of Equipment as of the rent payment date on or immediately preceding the date of termination over the net proceeds of such sale, and (ii) any damages and expenses, other than for a failure to pay rental, in addition thereto, including reasonable attorneys' fees, which the Lessor shall have sustained by reason of the breach of any covenant or covenants of this Lease other than for the payment of rental.

For purposes of Section 14.2 above, the Fair Rental Value and Fair Market Value for any Item of Equipment shall be determined in the manner provided for appraisal arrangements specified in Section 18.3(b) hereof; provided that any sale in a commercially reasonable manner of any Item of Equipment prior to any such determination shall conclusively establish the Fair Market Value of such Item and any rental in a commercially reasonable manner of any Item of Equipment prior to any such determination shall conclusively establish the Fair Rental Value of such Item.

14.3. Cumulative Remedies. The remedies in this Lease provided in favor of the Lessor shall not be deemed exclusive, but shall be cumulative and shall be in addition to all other remedies in its favor existing at law or in equity. The Lessee hereby waives any mandatory requirements of law, now or hereafter in effect, which might limit or modify any of the remedies herein provided, to the extent that such waiver is permitted by law. The Lessee hereby waives any and all existing or future claims of any right to assert any offset against the rent payments due hereunder, and agrees to make the rent payments regardless of any offset or claim which may be asserted by the Lessee on its behalf in connection with the lease of the Equipment.

14.4. Lessor's Failure to Exercise Rights. The failure of the Lessor to exercise the rights granted it hereunder upon any occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or upon the occurrence of any other contingencies.

14.5. Notice of Event of Default. The Lessee also agrees to furnish to the Lessor and the Note Purchaser, promptly upon any responsible officer becoming aware of any condition which constituted or constitutes an Event of Default under this Lease or which, after notice or lapse of time, or both, would constitute such an Event of Default, written notice specifying such condition

and the nature and status thereof. For the purposes of this Section 14.5 a "responsible officer" shall mean, with respect to the subject matter of any covenant, agreement or obligation of the Lessee in this Lease contained, any corporate officer of the Lessee who, in the normal performance of his operational responsibilities, should have knowledge of such matter and the requirements of this Lease with respect thereto.

SECTION 15. RETURN OF EQUIPMENT UPON DEFAULT.

15.1. Lessee's Duty to Return. If the Lessor or any assignee of the Lessor pursuant to Section 16 hereof shall terminate this Lease pursuant to Section 14 hereof, the Lessee shall forthwith deliver possession of the Equipment to the Lessor. For the purpose of delivering possession of any Item of Equipment to the Lessor as above required, the Lessee shall at its own cost, expense and risk (except as hereinafter stated):

(a) Forthwith remove such Equipment from any unit of railroad rolling stock to which such Equipment is attached and place such Equipment in such reasonable storage place on or adjacent to the Lessee's lines of railroad as the Lessor may designate or, in the absence of such designation, as the Lessee may select;

(b) Permit the Lessor to store such Equipment in such reasonable storage place on the Lessee's lines of railroad without charge for insurance, rent or storage until such Equipment has been sold, leased or otherwise disposed of by the Lessor and during such period of storage the Lessee shall continue to maintain all insurance required by Section 11.1 hereof; and

(c) Transport the Equipment to any place on the lines of railroad operated by the Lessee or to any connecting carrier for shipment, all as the Lessor may direct in writing.

All amounts earned in respect of the Equipment after the date of termination of this Lease, but not exceeding the rental, per diem, or other similar charge for equipment received therefor, shall belong to the Lessor or in the event this Lease has been assigned pursuant to Section 16 hereof, to such assignee, and, if received by the Lessee, shall be promptly turned over to the Lessor, or in the case of such assignment, to such assignee. In the event any Item of Equipment is not assembled, delivered and stored as hereinabove provided within 30 days after the termination of this Lease, the Lessee shall, in addition, pay to the Lessor or, in the case of such assignment, to such assignee for each day thereafter an amount equal to the amount, if any, by which the higher of (1) an

amount equal to 0.03889% of the Purchase Price of such Item of Equipment, or (ii) the Fair Rental Value (determined in the manner provided in Section 18 hereof) for such Item of Equipment for each such day exceeds the amount, if any, received by the Lessor or such assignee (either directly or from the Lessee) for such day for such Item pursuant to the preceding sentence.

15.2. Specific Performance. The assembling, delivery, storage and transporting of the Equipment as hereinbefore provided are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises, the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee so to assemble, deliver, store and transport the Equipment.

15.3. Lessor Appointed Lessee's Agent. Without in any way limiting the obligation of the Lessee under the foregoing provisions of this Section 15, the Lessee hereby irrevocably appoints the Lessor as the agent and attorney of the Lessee, with full power and authority, at any time while the Lessee is obligated to deliver possession of any Items of Equipment to the Lessor, to demand and take possession of such Item in the name and on behalf of the Lessee from whomsoever shall be at the time in possession of such Item.

SECTION 16. ASSIGNMENTS BY LESSOR.

This Lease and all rent and all other sums due or to become due hereunder may be assigned in whole or in part by the Lessor without the consent of the Lessee, but the Lessee shall be under no obligation to any assignee of the Lessor except upon written notice of such assignment from the Lessor. Upon notice to the Lessee of any such assignment, the rent and other sums payable by the Lessee which are the subject matter of the assignment shall be paid to or upon the written order of the assignee. Without limiting the foregoing, the Lessee further acknowledges and agrees that (i) the rights of any such assignee in and to the sums payable by the Lessee under any provision of this Lease shall not be subject to any abatement whatsoever and shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever whether by reason of failure of or defect in the Lessor's title, or any interruption from whatsoever cause in the use, operation or possession of the Equipment or any part thereof, or any damage to or loss or destruction of the Equipment or any part thereof, or by reason of any other indebtedness or liability, howsoever and whenever arising, of the Lessor to the Lessee or to any other person, firm or corporation or to any governmental authority or for any cause whatsoever, it being the intent hereof that, except in the event of a wrongful act on the part of such assignee, the Lessee shall be unconditionally and absolutely obligated to pay such assignee all of the rents and other sums which are the subject matter of the assignment, (ii) said assignee shall, if an Event of Default, or any event which with the lapse of time or the giving of notice, or both, would

constitute such an Event of Default, shall have occurred and be continuing, have the sole right to exercise all rights, privileges and remedies (either in its own name or in the name of the Lessor for the use and benefit of said assignee) which by the terms of this Lease are permitted or provided to be exercised by the Lessor (except those rights, privileges and remedies relating to amounts payable to the Lessor pursuant to Sections 6, 10.2, 11.1 [with respect to public liability insurance] and 20.2 hereof which shall remain enforceable by the Lessor), but if no Event of Default or event which with the lapse of time or giving of notice, or both, would constitute an Event of Default, shall have occurred and be continuing, said assignee and the Lessor may each exercise their respective rights, privileges and remedies stated in this Lease to be provided for their respective benefits, and (iii) all obligations of the Lessor to the Lessee under this Lease shall be and remain enforceable by the Lessee against, and only against, the Lessor.

It is understood and agreed that the right, title and interest of any such assignee in, to and under this Lease and the rents and other sums due and to become due hereunder shall by the express terms granting and conveying the same be subject to the interest of the Lessee in and to possession of the Equipment so long as no Event of Default has occurred.

SECTION 17. ASSIGNMENTS BY LESSEE; USE AND POSSESSION.

17.1. Lessee's Rights to the Equipment. So long as no Event of Default, or any event which with the lapse of time or the giving of notice, or both, would constitute such an Event of Default, shall have occurred and be continuing, the Lessee shall be entitled to the possession and use of the Equipment in accordance with the terms of this Lease, but, without the prior written consent of the Lessor, the Lessee shall not assign, transfer or encumber its leasehold interest under this Lease in any of the Equipment. The Lessee shall not, without the prior written consent of the Lessor, part with the possession or control of, or suffer or allow to pass out of its possession or control, any of the Equipment, except to the extent permitted by the provisions of Section 17.2 hereof.

17.2. Use and Possession of Equipment. So long as the Lessee shall not be in default under this Lease, the Lessee shall be entitled to the possession of the Equipment and to the use thereof on or adjacent to lines of railroad owned or operated by it (either alone or jointly) or by any corporation, a majority of whose voting stock (i.e., having ordinary voting power for an election of a majority of its Board of Directors) is owned directly or indirectly by the Lessee and for such other uses as are normally made by the Lessee of maintenance of way equipment, but only upon and subject to all the terms and conditions of this Lease. Notwithstanding the foregoing, the Lessee shall at no time throughout the term of this Lease assign or permit the assignment of any Item of Equipment to service (including, without limitation, the regular

operation or maintenance thereof) outside the United States and Canada, and the Lessee agrees that the use of the Equipment outside the continental United States shall be de minimus. No assignment or sublease entered into by the Lessee hereunder shall relieve the Lessee of any liability or obligation hereunder which shall be and remain that of a principal and not a surety.

17.3. Merger, Consolidation or Acquisition of Lessee.

Nothing in this Section 17 shall be deemed to restrict the right of the Lessee to assign or transfer its leasehold interest under this Lease in the Equipment or possession of the Equipment to any corporation into or with which the Lessee shall have become merged or consolidated or which shall have acquired or leased all or substantially all of the lines of railroad of the Lessee, provided that such assignees, successors or transferees shall have duly assumed the obligations of the Lessee hereunder and that they will not, upon the effectiveness of such merger or consolidation or acquisition of properties and the assumption of such obligations, be in default under any provision of this Lease and that such merger or consolidation or acquisition of Properties shall not alter in any way the Lessee's obligations to the Lessor hereunder which shall be and remain those of a principal and not a surety.

SECTION 18. PURCHASE AND RENEWAL OPTIONS.

18.1. Initial Election. Provided that this Lease has not been earlier terminated and no Event of Default or Default shall have occurred and be continuing hereunder, the Lessee may by written notice delivered to the Lessor not less than (a) 180 days prior to the end of the original term hereof in respect of the Equipment, notify the Lessor that the Lessee irrevocably elects either that it shall offer to extend the term of this Lease or offer to purchase the Equipment, all on the basis hereinafter provided, (b) 180 days prior to the end of the first renewal term pursuant to Section 18.3 hereof, if any, of this Lease in respect of the Equipment, notify the Lessor that the Lessee irrevocably elects either that it shall offer to extend the term of this Lease in respect of the Equipment or elect to purchase the Equipment, all on the basis hereinafter provided, and (c) 180 days prior to the end of the second renewal term, if any, of this Lease in respect of the Equipment, notify the Lessor that the Lessee elects to purchase the Equipment on the basis hereinafter provided.

18.2. Option to Purchase. (a) The right of the Lessee as provided in Section 18.1 hereof to elect to purchase Items of Equipment shall apply to all, but not less than all, of the Items of Equipment whose term or renewal term is then expiring at a price equal to the "Fair Market Value" (as hereinafter defined). The written notice of Lessee's election to exercise the purchase option provided for in Section 18.1 hereof shall identify all of the Items of Equipment to be purchased. Payment of the option price shall be made to the Lessor at the place of payment specified

herein in funds current in Louisville against delivery of a bill of sale transferring and assigning to the Lessee all right, title and interest of the Lessor in and to such Items and containing a warranty against liens or claims of persons claiming by, through or under the Lessor except liens and claims which the Lessee assumed or is obligated to discharge under the terms of the Lease. The Lessor shall not be required to make any representation or warranty as to the condition of the Items of Equipment or any other matters.

18.3. Renewal Options. Provided that no Event of Default, or any event which with the lapse of time or the giving of notice, or both, would constitute such an Event of Default, shall have occurred and be continuing, the Lessee shall have the following renewal options:

(a) The Lessee shall have the option to renew and extend this Lease as to all, but not less than all, of the Items of Equipment then leased hereunder for two additional renewal terms of two years each upon and subject to the terms and conditions herein contained for the original term of this Lease; provided that the Fixed Rental payable for and during any such renewal term shall be an amount equal to the Fair Rental Value (as hereinafter defined) of such Items of Equipment and that the Casualty Value payable for and during any such renewal term in respect of any Item of Equipment suffering a Casualty Occurrence during such term shall be an amount equal to the higher of (i) the Fair Market Value of such Item of Equipment as of the beginning of such renewal term, or (ii) an amount equal to 20% of the Purchase Price of such Item of Equipment. Each renewal term shall commence immediately upon the expiration of the preceding term. The Lessee shall give the Lessor written notice of any such election 180 days prior to the commencement of any renewal term provided for in this Section 18.3; and

(b) The Fair Rental Value or Fair Market Value, as the case may be, of the Items of Equipment shall be determined on the basis of, and shall be equal in amount to, the value which would obtain in an arm's-length transaction between an informed and willing lessee or buyer, as the case may be (other than a lessee or buyer, as the case may be, currently in possession) and an informed and willing lessor or seller, as the case may be, under no compulsion to lease or sell, as the case may be. If on or before 90 days prior to the date of commencement of the renewal term elected by the Lessee, the Lessor and the Lessee are unable to agree upon a determination of the Fair Rental Value or the Fair Market Value of such Items of Equipment, such value shall be determined in accordance

with the foregoing definition by a qualified independent Appraiser. The term "Appraiser" shall mean any independent appraiser mutually agreed upon by the Lessor and the Lessee or if no such mutual agreement is reached within 15 days after the beginning of such 90-day period, two independent appraisers, one chosen by the Lessor and one chosen by the Lessee, or, if such appraisers cannot agree on the amount of such value within 60 days prior to the date of commencement of the renewal term elected by the Lessee, an independent appraiser to be chosen by the American Arbitration Association promptly thereafter. The Appraiser shall be instructed to make such determination within a period of 30 days following appointment, and shall promptly communicate such determination in writing to the Lessor and the Lessee. The determination so made shall be conclusively binding upon both the Lessor and the Lessee. The expenses and fees of the Appraiser shall be borne by the Lessee.

18.4. Delivery of Equipment. Unless the Lessee has elected to purchase the Items of Equipment then leased hereunder or to renew this Lease in respect of such Items of Equipment as provided in this Section 18, all of such Items of Equipment shall be returned to the Lessor at the end of the original term, or the then current renewal term, as the case may be, in accordance with Section 13 hereof.

SECTION 19. INTEREST ON OVERDUE RENTALS AND AMOUNT PAID BY LESSOR.

Anything to the contrary herein contained notwithstanding any nonpayment of rent due hereunder, or amounts expended by the Lessor on behalf of the Lessee, shall result in the additional obligation on the part of the Lessee to pay interest in an amount equal to two percent above Central Penn National Bank's prime short-term commercial rate to its best customers as that rate shall vary from time to time, with said rate fixed each quarter on the date of the previous Fixed Rental payment date on the overdue rentals and amounts expended for the period of time during which they are overdue or expended and not repaid.

SECTION 20. MISCELLANEOUS.

20.1. Notices. Any notice required or permitted to be given by either party hereto to the other shall be deemed to have been given when deposited in the United States certified mails, first class, postage prepaid, addressed as follows:

If to the Lessor:	First National Bank of Louisville
	P. O. Box 36040
	Louisville, Kentucky 40232
	Attention: Mr. William F. Stites
	Senior Vice President

Payments to the Lessor hereunder
to be made by wire transfer
as follows:

First National Bank of
Louisville
Attention: Leasing Department

If to the Note
Purchaser:

Central Penn National Bank
5 Penn Center Plaza
Philadelphia, Pennsylvania 19103
Attention:

If to the Lessee:

Consolidated Rail Corporation
1310 Six Penn Center
Philadelphia, Pennsylvania 19104
Attention: Vice President and
Treasurer

or addressed to any such party at such other address as such
party shall hereafter furnish to such other parties in writing.

20.2. Right of Lessor to Perform. If the Lessee shall fail to comply with any of its covenants herein contained, either the Lessor or, in the case of an assignment by the Lessor pursuant to Section 16 hereof, the assignee thereunder (including, without limitation, the Note Purchaser) may, but shall not be obligated to, make advances to perform the same and to take all such action as may be necessary to obtain such performance. Any payment so made by any such party and all cost and expense (including, without limitation, reasonable attorneys' fees and expenses) incurred in connection therewith shall be payable by the Lessee to the party making the same upon demand as additional rent hereunder, with interest at the rate per annum for overdue rentals as set forth in Section 19 hereof.

20.3. Execution in Counterparts. This Lease, and any lease supplemental hereto, may be executed in several counterparts, each of which so executed shall be deemed to be an original and in each case such counterparts shall constitute but one and the same instrument.

20.4. Law Governing. This Lease shall be construed in accordance with the laws of the Commonwealth of Kentucky; provided, however, that the parties shall be entitled to all rights conferred by any applicable Federal statute, rule or regulation.


20.5. Headings and Table of Contents. All Section headings and the Table of Contents are inserted for convenience only and shall not affect any construction or interpretation of this Lease.

20.6. Severability. Any provision of this Lease which is prohibited or unenforceable in any jurisdiction shall be as to such jurisdiction ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provisions in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed by their respective officers thereunder duly authorized and the corporate seals to be hereto affixed as of the day and year first above written.

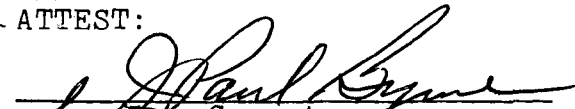
FIRST NATIONAL BANK OF LOUISVILLE

By


Its Senior Vice President

[CORPORATE SEAL]

ATTEST:


Asst. Secretary

CONSOLIDATED RAIL CORPORATION

By

Its _____

[CORPORATE SEAL]

ATTEST:

Secretary

DESCRIPTION OF ITEMS OF EQUIPMENT

<u>Number of Items</u>	<u>Description</u>	<u>Manufacturer and Manufacturer's Identification Nos.</u>
13	Backhoes	J. I. Case Co. EF 5617 to 5629
4	H1 Rail Truck Cranes	Stanley H. Smith & Co. CT 1553 to 1556
2	Crawler Cranes	Stanley H. Smith & Co. CC 1052 to 1053
3	Rerailing Cranes	Pettibone Ohio Corp. S 3065 to 3067
4	Switch Tampers	Plasser American Corp. MP 5042 to 5045
3	Ballast Regulators	Plasser American Corp. BR 1297 to 1299
6	Spike Pullers	Rexnord Inc. SP 2115 to 2120
10	Push Trucks	Quaker RR Equipment Sales Corp. PL 1502 to 1511
2	Rotary Dump Trucks	Bankhead Enterprises ET 2004 to 2005
7	Excavators	Stewart Equipment Company EG 3004 to 3010
7	H1 Rail Gears	Bankhead Enterprises EG 3004 to 3010

Place of Delivery: As designated in applicable
Purchase Orders

Outside Delivery Date: December 31, 1979

(Conrail 79-1)

SCHEDULE A
(to Equipment Lease)

CERTIFICATE OF ACCEPTANCE
UNDER EQUIPMENT LEASE

TO: First National Bank of Louisville
(the "Lessor")

(the "Manufacturer")

1. The undersigned, a duly appointed and authorized representative of Consolidated Rail Corporation (the "Lessee") under the Equipment Lease dated as of July 31, 1979 between the Lessor and the Lessee, does hereby certify that he has inspected, received, approved and accepted delivery under the Lease of the following Items of Equipment:

TYPE OF EQUIPMENT:

PLACE ACCEPTED:

DATE ACCEPTED:

NUMBER OF UNITS:

MARKED AND NUMBERED:

2. He does further certify that the foregoing Items of Equipment are in good order and condition, and appear to conform to the specifications applicable thereto, that the Lessee has no knowledge of any defect in any of the foregoing Items of Equipment with respect to design, manufacture, condition or in any other respect, and that each Item has been labeled by means of a plate or a stencil printed in contrasting colors upon each side of the Item in letters not less than one inch in height as follows:

"Leased from First National Bank of
Louisville, as Owner, and Subject to a
Security Interest."

3. The undersigned duly authorized representative of the Lessee certifies that each Item of Equipment described herein has not been placed in service by the Lessee or any other person so as to preclude "the original use of such property" within the meaning of Sections 38(b) and 167(c)(2) of the Internal Revenue Code of 1954, as amended from commencing with the Lessor.

(Conrail 79-1)

SCHEDULE B
(to Equipment Lease)

The execution of this Certificate will in no way relieve or decrease the responsibility of the Manufacturer for any warranties it has made with respect to the Equipment.

Dated: _____, 19__

Inspector and Authorized
Representative of the Lessee,
and signing as to the matters
in paragraphs 1 and 2 above

CONSOLIDATED RAIL CORPORATION,
Lessee, and signing as to the
matters in paragraph 3 above

By _____
Its _____

SCHEDULE OF CASUALTY VALUE

The Casualty Value for an Item of Equipment payable on the Term Lease Commencement Date or any Fixed Rental payment date thereafter shall mean an amount equal to the percent of the Purchase Price plus the amount of any Alterations included in gross income by the Lessor pursuant to Section 7 of the Lease of such Item set forth opposite such date in the following schedule (as the same may be increased pursuant to Annex 1 to this Schedule C):

<u>Term Lease Commencement Date or Number of Fixed Rental Payment Date on which Casualty Value is Paid</u>	<u>Percentage of Purchase Price Payable as Casualty Value</u>
Term Lease Commencement Date	85.6578
1	84.4467
2	83.1363
3	81.7349
4	80.2403
5	78.6661
6	77.0036
7	75.2562
8	73.4220
9	71.5083
10	69.5121
11	67.4336
12	65.2706
13	63.0272
14	60.7079
15	58.3094
16	55.8296
17	53.2686
18	50.6394
19	47.9346
20	45.1522
21	42.2885
22	39.3652
23	36.3706
24	33.2941
25	30.1198
26	26.8957
27	23.6063
28	20.0000

(Conrail No. 79-1)

SCHEDULE C
(to Equipment Lease)

ANNEX 1 TO SCHEDULE C
(to Equipment Lease)

The percentages set forth in Table 1 to this Schedule C have been computed without regard to recapture of the Investment Credit provided for in Section 38 and related sections of the Internal Revenue Code of 1954, as amended. Consequently, the Casualty Value of any Item of Equipment suffering a Casualty Occurrence on or before the third, fifth or seventh anniversary of the date of delivery and acceptance of such Item shall be increased by the applicable percentage of the Purchase Price set forth below:

<u>Anniversary of Delivery and Acceptance</u>	<u>Percentage of Purchase Price</u>
3	18.5185
5	12.3457
7	6.1728

EQUIPMENT LEASE

Dated as of July 31, 1979

Between

First National Bank of Louisville

LESSOR

And

Consolidated Rail Corporation

LESSEE

(Conrail 79-1)
(Maintenance of Way Equipment)

This Lease and certain of the sums due and to become due hereunder have been assigned to, and are subject to a security interest in favor of, Central Penn National Bank, as Secured Party, pursuant to a Security Agreement-Trust Deed dated as of July 31, 1979 from First National Bank of Louisville to said Secured Party. Information concerning such security interest may be obtained from said Secured Party at its principal office at 5 Penn Center Plaza, Philadelphia, Pennsylvania 19103.

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Attachments to Equipment Lease:

Schedule A - Description of Items of Equipment
Schedule B - Certificate of Acceptance
Schedule C - Schedule of Casualty Value

EQUIPMENT LEASE

THIS EQUIPMENT LEASE dated as of July 31, 1979 between First National Bank of Louisville, a national banking association (the "Lessor"), and Consolidated Rail Corporation ("Conrail"), a Pennsylvania corporation (the "Lessee");

R E C I T A L S:

A. Pursuant to a Purchase Order Assignment dated as of July 31, 1979, the Lessee has assigned to the Lessor its right to purchase the Equipment referred to below.

B. The Lessee and the Lessor intend to enter into a Participation Agreement dated as of July 31, 1979 (the "Participation Agreement") with Central Penn National Bank (the "Note Purchaser") providing for the commitment of the Note Purchaser which, together with funds provided by the Lessor, will permit the Lessor to obtain the funds necessary to purchase the equipment (collectively the "Equipment" and individually an "Item of Equipment") described in Schedule A hereto and made a part hereof. The Lessor will commit to advance an amount equal to 41.7792% of the Purchase Price of each Item of Equipment and the Note Purchaser will commit to purchase the Secured Notes (the "Notes") of the Lessor in an amount equal to 58.2208% of each Item of Equipment. It is contemplated that the Participation Agreement will provide that the Notes will be secured by an assignment of the Lessor's right, title and interest in and to this Lease and in and to the Equipment pursuant to a Security Agreement dated as of July 31, 1979 (the "Security Agreement") from the Lessor to the Note Purchaser.

SECTION 1. LEASE AND DELIVERY OF EQUIPMENT.

1.1. Intent to Lease and Hire. Upon delivery of each Item of Equipment by the manufacturers and suppliers listed in Schedule A hereto, (hereinafter referred to collectively as the "Manufacturers" and individually as a "Manufacturer"), the Lessee shall lease and the Lessor shall hire to the Lessee such Item of Equipment for the rental and on and subject to the terms and conditions herein set forth.

1.2. Inspection and Acceptance. The Lessor will cause each Item of Equipment to be tendered to the Lessee at the place of delivery set forth in Schedule A. Upon such tender, the Lessee will cause an inspector designated and authorized by the Lessee to inspect the same, and, if such Item of Equipment is found to be in good order, to accept delivery of such Item of Equipment and to execute and deliver to the Lessor and the Manufacturer thereof a Certificate of Acceptance (the "Certificate of Acceptance") in the form attached hereto as Schedule B with respect to such Item of Equipment; provided, however, that the Lessee shall not accept

and the Lessor shall have no obligation to lease any Item of Equipment delivered after the Outside Delivery Date set forth in Schedule A.

1.3. Certificate of Acceptance. The Lessee's execution and delivery of a Certificate of Acceptance with respect to each Item of Equipment pursuant to Section 1.2 hereof shall conclusively establish that, as between the Lessor and the Lessee, but without limiting or otherwise affecting the Lessee's or the Lessor's rights, if any, against the Manufacturer thereof, such Item of Equipment is acceptable to and accepted by the Lessee under this Lease, notwithstanding any defect with respect to design, manufacture, condition or in any other respect, and that such Item of Equipment is in good order and condition and appears to conform to the specifications applicable thereto and to all applicable United States Department of Transportation and Interstate Commerce Commission requirements and specifications, if any, and to all standards recommended by the Association of American Railroads applicable to new railroad equipment of the character of the Equipment as of the date of this Lease. By execution and delivery of such Certificate of Acceptance, the Lessee represents that it has no knowledge of any such defect.

SECTION 2. RENTALS AND PAYMENT DATES.

2.1. Rent for Equipment. The Lessee agrees to pay the Lessor the following rent for each Item of Equipment:

(a) Interim Rental. For each Item of Equipment, an amount per day (the "Interim Rental") equal to 0.0430556% of the Purchase Price thereof for the period, if any, from the Closing Date (as defined in the Participation Agreement) for such Item of Equipment to, but not including, January 3, 1980 (the "Term Lease Commencement Date"); and

(b) Fixed Rental. For each Item of Equipment, 28 quarterly installments of fixed rental (the "Fixed Rental"), payable in arrears, each in an amount equal to 4.11244% of the Purchase Price thereof.

2.2. Rent Payment Dates. The installment of Interim Rental for each Item of Equipment shall be due and payable on the Term Lease Commencement Date. The first installment of Fixed Rental for each Item of Equipment shall be due and payable three months following the Term Lease Commencement Date and the balance of said installments shall be payable at three month intervals thereafter with the final such installment payable seven years following the Term Lease Commencement Date. If any of the rent payment dates is not a business day, the rent payment

otherwise payable on such date shall be payable on the next succeeding business day. For purposes of this Lease, the term "business day" means calendar days, excluding Saturdays, Sundays and holidays on which banks in the Commonwealth of Pennsylvania, or the State of Illinois or the Commonwealth of Kentucky are authorized or required to close.

2.3. Adjustment of Rentals. In determining the amount of each installment of Fixed Rental payable pursuant to Section 2.1 hereof, the Lessor and the Lessee have assumed that the interest rate on the Notes for the entire quarterly period ending on the date of payment of such installment of Fixed Rental, will be 11% per annum. In the event that the rate of interest payable on the Notes for such quarterly installment shall vary from 11% per annum, the Lessor and the Lessee agree that such installment of Fixed Rental shall be increased or decreased in an amount equal to the difference between (a) the amount of interest accrued and payable on the Notes for such quarterly installment, minus (b) the amount of interest which would have accrued and been payable on the Notes for such quarterly installment period had the interest rate on the Note for such quarterly installment period been equal to 11% per annum computed on a 30 day month 360 day year basis. Such difference as calculated in the preceding sentence shall result in a reduction in the Fixed Rental if negative, and shall result in an increase in the Fixed Rental if positive.

2.4. Place and Manner of Rent Payment. The payments to be made by the Lessee under this Lease shall be made as follows:

(a) The installment of Interim Rental shall be paid to the Lessor by wire transfer to the principal office of the Lessor at the address thereof provided for payments in Section 20.1 hereof; provided that in the event either the Lessor or the Note Purchaser shall notify the Lessee in writing that the right to receive payment of such installment shall have been assigned in accordance with Section 16 hereof, the Lessee shall make such payment by wire transfer to the place designated in such notice or as otherwise designated from time to time in writing by such assignee;

(b) The portion of any installment of Fixed Rental resulting from an increase in the amount thereof, if any, which the Lessee shall agree to pay to the Lessor pursuant to any rental adjustment arrangements (other than those adjustments required by Section 2.3 hereof) shall be paid in full to the Lessor by wire transfer to the principal office of the Lessor at the address provided for payments in Section 20.1 hereof;

(c) Each installment of Fixed Rental shall be paid to the Lessor by wire transfer to the principal office of the Lessor at the address thereof provided for payments in Section 20.1 hereof; provided that in the event either the Lessor or the Note Purchaser shall notify the Lessee in writing that the right to receive payment of such installment shall have been assigned in accordance with Section 16 hereof, the Lessee shall make such payment by wire transfer to the place designated in such notice or as otherwise designated from time to time in writing by such assignee; and provided further that in the event such notice shall direct the Lessee to divide such installment into not more than two portions, in addition to the portion referred to in Section 2.3(b) hereof, and to pay each portion by wire transfer separately to not more than two parties, the Lessee agrees to do so,

(d) The entire amount of any payment of Casualty Value pursuant to Section 11 hereof shall be paid to the Lessor by a check drawn on a bank located in the continental United States (identifying the same as a payment of Casualty Value relating to Conrail No. 79-1) and forwarded to the Lessor in the manner provided for notice in Section 20.1 hereof; provided that in the event either the Lessor or the Note Purchaser shall notify the Lessee in writing that the right to receive payment of such Casualty Value shall have been assigned in accordance with Section 16 hereof, the Lessee shall make such payment by such check in the manner designated in such notice or as otherwise designated from time to time in writing by such assignee;

(e) The amount of any payment owing to the Lessor pursuant to Sections 6, 10.2, 11.1 (with respect to public liability insurance) and 20.2 hereof shall be made directly to the party to receive the same without regard to the assignment of this Lease pursuant to Section 16 hereof;

(f) The amount of any interest due in respect of the late payment of any rentals or other amounts pursuant to Section 19 hereof shall be paid to the party and in the manner (including wire transfer) herein provided to receive said rental or other amount; and

(g) All payments other than those above specified shall be made by the Lessee directly to the party to receive the same unless any such payment has previously been made by the Lessor or its assignee, in which case the Lessee shall reimburse the Lessor or its assignee, as the case may be, directly for such payment.

The Lessee agrees that it will make payments due hereunder by wire transfer where specified above at the opening of business of the office of the transferring bank on the due date of such

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payment of Federal or otherwise immediately available funds to the party to whom such payment is to be made, and where not so specified, such payment shall be made by check of the Lessee drawn on a bank located in the continental United States and mailed to the party to receive the same at the address herein provided or at such other address as the Lessee shall have been previously advised in writing.

2.5. Net Lease. This Lease is a net lease and the Lessee's obligation to pay all Interim Rental and Fixed Rental and other amounts payable hereunder shall be absolute and unconditional under any and all circumstances and, without limiting the generality of the foregoing, the Lessee shall not be entitled to any abatement of rent or reduction thereof or setoff against rent, including, but not limited to, abatements, reductions or setoffs due to any present or future claims of the Lessee against the Lessor under this Lease or otherwise or against any assignee of the Lessor pursuant to Section 16 hereof; nor, except as otherwise expressly provided herein, shall this Lease terminate, or the respective obligations of the Lessor or the Lessee be otherwise affected, by reason of any defect in or damage to or loss or destruction of any or all of the Equipment or requisitioning of the Equipment by condemnation or otherwise, the lawful prohibition of Lessee's use of the Equipment, the interference with such use by any private person or corporation, the invalidity or unenforceability or lack of due authorization or other infirmity of this Lease, or lack of right, power or authority of the Lessor to enter into this Lease, or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, it being the intention of the parties hereto that the rents and other amounts payable by the Lessee hereunder shall continue to be payable in all events unless the obligation to pay the same shall be terminated pursuant to Section 11 hereof, or until, pursuant to Section 13 hereof, the Equipment has been returned to the possession of the Lessor (for all purposes of this Lease any Item of Equipment shall not be deemed to have been returned to the Lessor's possession until all of the Lessee's obligations with respect to the return, transportation and storage thereof have been performed). To the extent permitted by applicable law, the Lessee hereby waives any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender the lease of any of the Items of Equipment except in accordance with the express terms hereof. Each rental or other payment made by the Lessee hereunder shall be final and the Lessee shall not seek to recover all or any part of such payment from the Lessor or any assignee pursuant to Section 16 hereof for any reason whatsoever.

SECTION 3. TERM OF THE LEASE.

The term of this Lease as to each Item of Equipment shall begin on the date of the delivery to and acceptance by

the Lessee of such Item of Equipment and, subject to the provisions of Sections 11, 14 and 18 hereof, shall terminate seven years following the Term Lease Commencement Date provided for in Section 2.1(a) hereof.

SECTION 4. OWNERSHIP AND MARKING OF EQUIPMENT.

4.1. Retention of Title. The Lessor, as between the Lessor and the Lessee, shall and hereby does retain full legal title to the Equipment notwithstanding the delivery thereof to and possession and use thereof by the Lessee.

4.2. Duty to Number and Mark Equipment. The Lessee will cause each Item of Equipment to be kept numbered with its identification number as set forth in Schedule A hereto and will keep and maintain, plainly, distinctly, permanently and conspicuously marked by a plate or stencil printed in contrasting color upon each side of each Item of Equipment in letters not less than one inch in height as follows:

"Leased from First National Bank of Louisville,
as Owner, and Subject to a Security Interest"

with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect the title of the Lessor to such Item of Equipment, its rights under this Lease and the rights of any assignee under Section 16 hereof. The Lessee will not place any such Item of Equipment in operation or exercise any control or dominion over the same until the required legend shall have been so marked on both sides thereof and will replace promptly any such names and word or words which may be removed, defaced or destroyed. The Lessee will not change the identification number of any Item of Equipment except with the consent of the Lessor and in accordance with a statement of new identification numbers to be substituted therefor, which consent and statement previously shall have been delivered to the Lessor by the Lessee and filed, recorded or deposited in all public offices where this Lease shall have been filed, recorded or deposited.

4.3. Prohibition Against Certain Designations. Except as above provided, the Lessee will not allow the name of any person, association or corporation to be placed on the Equipment as a designation that might be interpreted as a claim of ownership; provided, however, that the Lessee may cause the Equipment to be lettered with the names or initials or other insignia customarily used by the Lessee or its affiliates on railroad equipment used by it of the same or a similar type for convenience of identification of the right of the Lessee to use the Equipment under this Lease.

SECTION 5. DISCLAIMER OF WARRANTIES.

THE LESSOR LEASES THE EQUIPMENT, AS-IS, IN WHATEVER CONDITION IT MAY BE, WITHOUT ANY AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, BY THE LESSOR EXPRESSLY DISCLAIMING ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO (A) THE FITNESS FOR ANY PARTICULAR PURPOSE OR MERCHANTABILITY OF ANY ITEM OR ITEMS OF EQUIPMENT, (B) THE LESSOR'S TITLE THERETO, (C) THE LESSEE'S RIGHT TO THE QUIET ENJOYMENT THEREOF, (D) THE DESIGN OR CONDITION OF, OR AS TO THE QUALITY OF THE MATERIAL, EQUIPMENT OR WORKMANSHIP IN, THE EQUIPMENT, OR (E) ANY OTHER MATTER WHATSOEVER, IT BEING AGREED THAT ALL SUCH RISKS, AS BETWEEN THE LESSOR AND THE LESSEE, ARE TO BE BORNE BY THE LESSEE. The Lessor hereby appoints and constitutes the Lessee its agent and attorney-in-fact during the term of this Lease to assert and enforce, from time to time, in the name and for the account of the Lessor and the Lessee, as their interests may appear, but in all cases at the sole cost and expense of the Lessee, whatever claims and rights the Lessor may have as owner of the Equipment against the Manufacturers, provided, however, that if at any time an Event of Default shall have occurred and be continuing, the Lessor may assert and enforce, at the Lessee's sole cost and expense, such claims and rights. The Lessor shall have no responsibility or liability to the Lessee or any other person with respect to any of the following: (i) any liability, loss or damage caused or alleged to be caused directly or indirectly by any Item of Equipment or by any inadequacy thereof or deficiency or defect therein or by any other circumstances in connection therewith; (ii) the use, operation or performance of any Item of Equipment or any risks relating thereto; (iii) any interruption of service, loss of business or anticipated profits or consequential damages; or (iv) the delivery, operation, servicing, maintenance, repair, improvement or replacement of any Item of Equipment. The Lessee's delivery of a Certificate of Acceptance shall be conclusive evidence as between the Lessee and the Lessor that all Items of Equipment described therein are in all the foregoing respects satisfactory to the Lessee, and the Lessee will not assert any claim of any nature whatsoever against the Lessor based on any of the foregoing matters.

SECTION 6. LESSEE'S INDEMNITY.

6.1. Scope of Indemnity. The Lessee shall defend, indemnify and save harmless the Lessor and any assignee of the Lessor pursuant to Section 16 hereof (including, without limitation, the Note Purchaser) and their respective successors and assigns from and against:

(a) any and all loss or damage to the Equipment, usual wear and tear excepted; and

(b) any claim, cause of action, damages, liability, cost or expense (including, without limitation, counsel

fees and costs in connection therewith) which may be incurred in any manner by or for the account of any of them (i) relating to any Item of Equipment or any part thereof, including, without limitation, the construction, purchase, delivery, acceptance, rejection, ownership, sale, leasing, return or storage of any Item of Equipment or as a result of the use, maintenance, repair, replacement, operation or the condition thereof (whether defects are latent or discoverable by the Lessee or any indemnified party), (ii) by reason or as the result of any act or omission (whether negligent or otherwise) of the Lessee for itself or as agent or attorney-in-fact for the Lessor hereunder, (iii) as a result of claims for patent, trademark or copyright infringements, or (iv) as a result of claims for negligence or strict liability in tort.

The indemnities and assumptions of liabilities set forth in this Section 6.1 do not guarantee to any party at any time a residual value in the Equipment nor do they guarantee the payment of the Notes or any interest accrued thereon.

6.2. Continuation of Indemnities and Assumptions.

The indemnities and assumptions of liability in this Section 6 contained shall continue in full force and effect notwithstanding the termination of this Lease, or the termination of the term hereof in respect of any one or more Items of Equipment, whether by expiration of time, by operation of law or otherwise; provided, however, that such indemnities and assumptions of liability shall not apply in respect of any matters referred to in subsection (a) or clause (i), (ii) or (iv) of subsection (b) of Section 6.1 hereof, occurring after the termination of this Lease, except for any such matters occurring after the termination arising in connection with the Lessee's assembling, delivering, storing or transporting of the Equipment as provided in Section 13 or 15, as the case may be. The Lessee shall be entitled to control, and shall assume full responsibility for, the defense of such claim or liability.

SECTION 7. RULES, LAWS AND REGULATIONS.

The Lessee agrees to comply with all governmental laws, regulations, requirements and rules (including, without limitation, any applicable rules of the United States Department of Transportation, the Interstate Commerce Commission and the Association of American Railroads) with respect to the use and maintenance of each Item of Equipment subject to this Lease, but the Lessee shall not be required to comply with such laws, regulations, requirements and rules so long as it shall, in good faith and by appropriate

legal proceedings contest the validity thereof in any reasonable manner which will not affect or endanger the title and interest of the Lessor, the condition of the Equipment or the security interest or other rights of any assignee under Section 16 hereof in and to the Equipment. In case any equipment or appliance is required to be altered, added, replaced or modified on any Item of Equipment in order to comply with such laws, regulations, requirements and rules, the Lessee agrees to make such alterations, additions, replacements and/or modifications at its own expense and title thereto shall be immediately vested in the Lessor. In the event the Lessee shall make any addition to any Item of Equipment pursuant to this Section 7 not requiring a replacement of any part or parts found on the Item when originally delivered to the Lessee (the "Alterations"), the Lessor agrees that if in the reasonable opinion of the Lessor the cost thereof is to be included in gross income of the Lessor for Federal income tax purposes, it will in the taxable year when the Alterations are made include the cost thereof in its gross income. The Lessee agrees that, within 30 days after the close of any calendar quarter in which the Lessee has made Alterations, the Lessee will give written notice thereof to the Lessor describing, in reasonable detail, the Alterations and specifying the cost thereof with respect to each Item of Equipment and the date or dates when made.

SECTION 8. USE AND MAINTENANCE OF EQUIPMENT.

The Lessee shall use the Equipment only in the manner for which it was designed and intended and so as to subject it only to ordinary wear and tear. The Lessee shall, at its own cost and expense, maintain and keep the Equipment in as good order, condition and repair as when originally received by it, ordinary wear and tear only excepted. Except as required by the provisions of Section 7 hereof, the Lessee shall not modify any Item of Equipment without the prior written authority and approval of the Lessor and any assignee pursuant to Section 16 hereof, which authority and approval shall not be unreasonably withheld. Any parts installed or replacements made by the Lessee upon any Item of Equipment pursuant to Section 7 hereof or pursuant to its obligation to maintain and keep the Equipment in good order, condition and repair under this Section 8 shall be considered accessions to such Item of Equipment and title thereto shall be immediately vested in the Lessor without cost or expense to the Lessor. The Lessee shall make no other additions or improvements to any Item of Equipment unless the same are readily removable without causing material damage and shall replace on the Item of Equipment any part removed or replaced as a result of any addition or improvement made pursuant to this Section 8 so as to return such Item to the Lessor in such condition as to meet all specifications of such Item as originally delivered to the Lessor, ordinary

wear and tear and permanent improvements only excepted. If the Lessee shall at its cost cause such readily removable additions or improvements to be made to any Item of Equipment, the Lessee agrees that it will, prior to the return of such Item of Equipment to the Lessor hereunder, remove the same at its own expense without causing material damage to such Item of Equipment. Title to any such readily removable additions or improvements shall remain with the Lessee.

SECTION 9. LIENS ON THE EQUIPMENT.

The Lessee shall pay or satisfy and discharge any and all claims against, through or under the Lessee and its successors or assigns which, if unpaid, might constitute or become a lien or a charge upon any Item of Equipment, and any liens or charges which may be levied against or imposed upon any Item of Equipment as a result of the failure of the Lessee to perform or observe any of its covenants or agreements under this Lease and any other liens or charges which arise by virtue of claims against, through or under any other party other than the Lessor, but the Lessee shall not be required to pay or discharge any such claims so long as it shall, in good faith and by appropriate legal proceedings contest the validity thereof in any reasonable manner which will not affect or endanger the title and interest of the Lessor or the security interest or other rights of any assignee under Section 16 hereof in and to the Equipment. The Lessee's obligations under this Section 9 shall survive the termination of this Lease.

Without limiting the foregoing, the Lessee further agrees that it will keep each Item of Equipment free and clear of any liens, charges, encumbrances or claims of the owner or owners of any interest in any units of railroad rolling stock to which any such Item of Equipment may at any time be attached or affixed and of any purchasers of or present or future creditors obtaining a lien on such unit or units of rolling stock, and the Lessee will permit an Item of Equipment to be attached or affixed to a unit of rolling stock only in a manner so as to permit such Item to be readily removable from such unit of rolling stock without material damage to such Item or to such unit of rolling stock and without diminishing or impairing the value or utility of such Item or the value or utility such unit of rolling stock would have had at such time had such Item not been so attached or affixed.

SECTION 10. FILING; PAYMENT OF STATE AND LOCAL TAXES.

10.1. Filing. Prior to the delivery and acceptance of the first Item of Equipment hereunder, the Lessee will cause this Lease and the Security Agreement: (i) to be duly filed, deposited, registered or recorded with the Interstate Commerce Commission in accordance with 49 U.S.C. 11303 (formerly Section 20c of the Interstate Commerce Act), (ii) to be recorded pursuant to the

The Corporation Security Registration Act, The Personal Property Security Act and deposited with the Registrar General of Canada of the Province of Ontario, Canada, (iii) to be filed pursuant to the Uniform Commercial Codes of the states of Kentucky and Pennsylvania, (iv) to have the interest of the Lessor and the Note Purchaser noted on the title certificates of all Equipment properly covered by vehicle titling acts, and (v) to be duly filed and recorded in such other places within or without the United States as the Lessor or the Note Purchaser may reasonably request and will furnish the Lessor and the Note Purchaser proof thereof. The Lessee will, from time to time, do and perform any other act and will execute, acknowledge, deliver, file, register and record (and will refile, reregister or rerecord whenever required) any and all further instruments required by law or reasonably requested by the Lessor or the Note Purchaser, for the purpose of protecting the Lessor's title to, or the Note Purchaser's security interest in, any Item of Equipment to the satisfaction of the Lessor's or the Note Purchaser's counsel or for the purpose of carrying out the intention of this Lease, and in connection with any such action, will deliver to the Lessor and the Note Purchaser proof of such filings and an opinion of the Lessee's counsel reasonably satisfactory to the Lessor and the Note Purchaser that such action has been properly taken. The Lessee will pay all costs, charges and expenses incident to any such filing, refiling, recording and rerecording or depositing and redepositing of any such instruments or incident to the taking of such action.

10.2. Payment of State and Local Taxes. All payments to be made by the Lessee hereunder will be free of expense to the Lessor and any assignee of the Lessor pursuant to Section 16 hereof (including, without limitation, the Note Purchaser) and their respective successors and assigns (the "Indemnitees") for collection or other charges and will be free of expense to the Indemnitees with respect to any Impositions as hereinafter defined. As used in this Section 10.2 "Impositions" shall mean the amount of any local, state, Federal or foreign taxes, assessments or license fees and any charges, fines or penalties in connection therewith which are imposed on or measured by this Lease or the receipt of sums pursuant hereto or any sale, rental, use, payment, shipment, delivery or transfer of title in respect of the Equipment under the terms hereof, the Security Agreement or the Purchase Order Assignment and the Purchase Agreements (defined therein); provided that Impositions shall not include as to each respective Indemnatee: (i) United States Federal income tax liability and, to the extent that any respective Indemnatee receives credit therefor against its United States Federal income tax liability, any foreign income tax of such Indemnatee, payable by any respective Indemnatee in consequence of the receipt of payments provided herein; and (ii) the aggregate of all franchise taxes measured by net income based on such receipts, up to the amount in the aggregate of any such income and franchise taxes which would be payable to the state and city in which such Indemnatee has its principal place of business without apportionment to any other state, except any such tax

which is in substitution for or relieves the Lessee from the payment of taxes which it would otherwise be obligated to pay or reimburse as herein provided. The Lessee agrees to pay, on demand, any and all Impositions. The Lessee will also pay promptly all Impositions which may be imposed upon any Item of Equipment from, through or under the Lessee or through the Lessee's use of the Equipment and will keep at all times all and every part of such Item of Equipment free and clear of all Impositions which might in any way affect the interest of any Indemnatee therein or result in a lien upon any such Item of Equipment; provided, however, that the Lessee shall be under no obligation to pay any Impositions so long as it is contesting in good faith and by appropriate legal proceedings such Impositions and the nonpayment thereof does not, in the reasonable opinion of the Indemnatee, adversely affect the interest of any Indemnatee hereunder or under the Security Agreement. If any Impositions shall have been charged or levied against any Indemnatee directly and paid by such Indemnatee after such Indemnatee shall have given written notice thereof to the Lessee and the same shall have remained unpaid for a period of ten business days thereafter, the Lessee shall reimburse such Indemnatee on presentation of invoice therefor. Prior to making such payment, such Indemnatee shall promptly notify the Lessee of the Impositions charged or levied, and the Lessee shall have the opportunity to contest in good faith and by appropriate legal proceedings such Impositions, at its sole expense.

In the event any reports with respect to Impositions are required to be made on the basis of individual Items of Equipment, the Lessee will either prepare and file such reports in such manner as to show as required the interests of each Indemnatee in such Items of Equipment or, if it shall not be permitted to file the same, it will notify each Indemnatee of such reporting requirements, prepare such reports in such manner as shall be satisfactory to each Indemnatee and deliver the same to each Indemnatee within a reasonable period prior to the date the same is to be filed.

In the event that, during the continuance of this Lease, any Imposition accrues or becomes payable or is levied or assessed (or is attributable to the period of time during which this Lease is in existence) which the Lessee is or will be obligated to pay or reimburse, pursuant to this Section 10.2, such liability shall continue, notwithstanding the expiration of this Lease, until all such Impositions are paid or reimbursed by the Lessee.

SECTION 11. INSURANCE; PAYMENT FOR CASUALTY OCCURRENCE.

11.1. Insurance. The Lessee will, at all times prior to the return of each Item of Equipment to the Lessor (including during storage periods), at its own expense, cause to be carried

and maintained casualty insurance and public liability insurance in respect of each Item of Equipment at the time subject hereto. Such insurance shall provide coverage against such risks, in such amounts and on such terms and conditions as are satisfactory to the Lessor and the Note Purchaser, and, in any event, such insurance shall be not less comprehensive with respect to maximum coverage and deductible amounts or with respect to risks than is customarily insured against by the Lessee in respect of similar equipment owned or leased by it, but in no event shall such coverage be for amounts or against risks less than or with deductibles greater than the prudent industry standard for major Class I line-haul railroads. Notwithstanding the foregoing, the Casualty Value of all Equipment at any given time may be less than what the deductible would be under the foregoing standard, but such fact shall not relieve Lessee of its duties to maintain casualty insurance coverages or to comply with the other obligations of this Section. All policies with respect to such insurance shall name the Lessor and the Note Purchaser as additional named insureds or loss payees, as their interests may appear, shall provide for at least 30 days' prior written notice by the insurance carrier to the Lessor, in the event of cancelation, expiration or amendment (and the Lessee shall provide 30 days' prior written notice to the Lessor and the Note Purchaser in any such event), shall include waivers by the insurer of all claims for premiums against the Lessor and the Note Purchaser and shall provide that losses are payable notwithstanding, among other things, any act of negligence of the Lessee, the Lessor or the Note Purchaser, more hazardous use or occupation of the Equipment than that permitted by such policies, any breach or violation by the Lessee, the Lessor or the Note Purchaser of any warranty, declaration, condition or other provision contained in any such policy, or foreclosure, notice of sale or any other proceeding in respect of the Equipment, or any change in the title to or ownership of any of the Equipment. Each such insurance policy shall expressly provide that all the provisions thereof except the limits of liability (which shall be applicable to all insureds as a group) and liability for premiums (which shall be solely a liability of the Lessee) shall operate in the same manner as if they were a separate policy covering each insured and shall be primary without right of contribution from any insurance carried by the Lessor or the Note Purchaser. The Lessee shall, not later than June 15 of each year, commencing June 15, 1980, furnish to the Lessor and the Note Purchaser a certificate of an independent insurance broker or company acceptable to the Lessor and the Note Purchaser evidencing the maintenance of the insurance required hereunder and shall furnish certificates evidencing renewal 10 days prior to the expiration date of such policy or policies. If the Lessor shall receive any insurance proceeds or condemnation payments in respect of an Item of Equipment suffering a Casualty Occurrence, the Lessor shall, subject to the Lessee's having made payment of the Casualty Value in respect of such Item and provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred

and be continuing, pay such proceeds or condemnation payments to the Lessee up to an amount equal to the Casualty Value with respect to such Item paid by the Lessee and any balance of such proceeds or condemnation payments shall remain the property of the Lessor. All insurance proceeds received by the Lessor in respect of any Item not suffering a Casualty Occurrence shall be paid to the Lessee upon proof satisfactory to the Lessor that any damage to such Item in respect of which such proceeds were paid has been fully repaired so as to comply with the provisions of this Section 11.1, provided no Event of Default (or other event which after notice or lapse of time or both would become an Event of Default) shall have occurred and be continuing.

11.2. Duty of Lessee to Notify Lessor. In the event that any Item of Equipment shall be or become lost, stolen, destroyed, or, in the opinion of the Lessee, irreparably damaged during the term of this Lease or thereafter while such Item of Equipment is in the possession of the Lessee pursuant to Section 13 or 15 hereof, or shall be requisitioned or taken over by any governmental authority under the power of eminent domain or otherwise during the term of this Lease for a stated period which exceeds the then remaining term of this Lease (any such occurrence being hereinafter called a "Casualty Occurrence"), the Lessee shall promptly and fully (after it has knowledge of such Casualty Occurrence) inform the Lessor and any assignee of the Lessor pursuant to Section 16 hereof (including, without limitation, the Note Purchaser) in regard thereto and shall pay the Casualty Value (as defined in Section 11.6 hereof) of such Item in accordance with the terms of Section 11.3 hereof.

11.3. Sum Payable for Casualty Loss. The Lessee, on the next succeeding rent payment date following its notice of a Casualty Occurrence with respect to any Item or Items of Equipment, shall pay to the Lessor the Interim or Fixed Rental installment due on such payment date for such Item of Equipment plus any rentals or other sums due on or prior to such date then remaining unpaid plus a sum equal to the Casualty Value of such Item of Equipment as of the date of such payment.

11.4. Rent Termination. Upon (and not until) payment of all sums required to be paid pursuant to Section 11.3 hereof in respect of any Item or Items of Equipment, the obligation to pay rent for such Item or Items of Equipment accruing subsequent to the Casualty Value payment date shall terminate, but the Lessee shall continue to pay rent for all other Items of Equipment.

11.5. Disposition of Equipment. The Lessee shall, as agent for the Lessor, dispose of such Item or Items of Equipment having suffered a Casualty Occurrence as soon as it is able to do so for the best price obtainable. Neither the Lessee nor any person which is related to the Lessee (within the meaning of Section 318 of the Code) shall purchase the Item or Items either

directly or indirectly unless the price paid by either the Lessee or the purchaser related to the Lessee is equal to or in excess of the fair market value of the Item or Items or unless prior to such purchase the Lessee certifies in writing to the Lessor that any lesser price offered is equal to or greater than written bids for the Item or Items from not less than two other potential purchasers. Any such disposition shall be on an "as-is", "where-is" basis without representation or warranty, express or implied. As to each separate Item of Equipment so disposed of, so long as no Event of Default, or any event which with the lapse of time or the giving of notice, or both, would constitute such an Event of Default shall have occurred and be continuing and if the Lessee has paid the Lessor the full Casualty Value for the Item, the Lessee may retain all amounts arising from such disposition plus any insurance proceeds and damages received by the Lessee by reason of such Casualty Occurrence up to the Casualty Value attributable thereto and shall remit the excess, if any, to the Lessor. In disposing of such Item of Equipment, the Lessee shall make appropriate provision for any taxes, fees or charges applicable to the disposition and shall take such other action as the Lessor shall reasonably request to terminate any contingent liability which the Lessor might have arising after such disposition from or connected with such Item of Equipment.

11.6. Casualty Value. The Casualty Value of each Item of Equipment shall be an amount determined as of the date the Casualty Value is paid as provided in this Section 11 (and not the date of the Casualty Occurrence) equal to that percentage of the Purchase Price (as defined in the Participation Agreement) plus the amount of any Alteration included in gross income by the Lessor pursuant to Section 7 hereof of such Item of Equipment set forth in the Schedule of Casualty Value attached hereto as Schedule C opposite such date of payment.

11.7. Risk of Loss. The Lessee shall bear the risk of loss and, except as hereinabove in this Section 11 provided, shall not be released from its obligations hereunder in the event of any Casualty Occurrence to any Item of Equipment from and after the date hereof and continuing until payment of the Casualty Value and all rental installments and other sums due on and prior to the date of payment of such Casualty Value in respect of such Item of Equipment has been made, such Item or the salvage thereof has been disposed of by the Lessee and the title to such Item or the salvage thereof and all risk of loss and liabilities incident to ownership have been transferred to the purchaser of such Item or the salvage thereof.

11.8. Eminent Domain. In the event that during the term of this Lease the use of any Item of Equipment is requisitioned or taken by any governmental authority under the power of eminent domain or otherwise for an indefinite period or for a stated period which does not exceed the term of this Lease, the Lessee's obligation to pay all installments of rental and other

sums shall continue for the duration of such requisitioning or taking. So long as no Event of Default, or event which with the lapse of time or giving of notice, or both, shall have occurred and be continuing, the Lessee shall be entitled to receive and retain for its own account all sums payable for any such period by such governmental authority as compensation for requisition or taking of possession.

SECTION 12. ANNUAL REPORTS.

12.1. Duty of Lessee to Furnish. On or before the first May 1 which occurs more than four months following the date of this Lease, the Lessee will furnish to the Lessor and any assignee of the Lessor pursuant to Section 16 hereof (including, without limitation, the Note Purchaser) an accurate statement, as of the preceding December 31 (a) showing the amount, description and numbers of the Items of Equipment then leased hereunder, the amount, description and numbers of all Items of Equipment that may have suffered a Casualty Occurrence during the 12 months ending on such December 31 (or since the date of this Lease, in the case of the first such statement), and such other information regarding the condition or repair of the Equipment as the Lessor may reasonably request, and (b) stating that, in the case of all Equipment repainted during the period covered by such statement, the markings required by Section 4.2 hereof shall have been preserved or replaced.

12.2. Lessor's Inspection Rights. The Lessor and any assignee of the Lessor pursuant to Section 16 hereof (including, without limitation, the Note Purchaser) each shall have the right, at their respective sole cost and expense, by their respective authorized representative, to inspect the Equipment and the Lessee's records with respect thereto, at such time or times as shall be reasonably convenient to the Lessee.

SECTION 13. RETURN OF EQUIPMENT UPON EXPIRATION OF TERM.

Upon the expiration of the term of this Lease with respect to any Item of Equipment, the Lessee will, at its own cost and expense, at the request of the Lessor, remove the same from any unit of railroad rolling stock to which it is attached and deliver possession of such Item of Equipment to the Lessor at a reasonable storage place on the lines of the railroad operated by the Lessee as the Lessor may designate or in the absence of such designation, as the Lessee may select, and permit the Lessor to store such Item of Equipment at such place for a period not exceeding 60 days and transport the same at any time within such 60-day period to any reasonable place on any railroad lines on or adjacent to lines operated by the Lessee or to any connecting carrier for shipment, all as directed by the Lessor upon not less than 30 days' written notice to the Lessee. All movement and storage of each such Item is to be at the risk and expense of the

Lessee. During any such storage period the Lessee will permit the Lessor or any person designated by it, including the authorized representative or representatives of any prospective purchaser of any such Item, to inspect the same; provided, however, that the Lessee shall not be liable, except in the case of negligence of the Lessee or of its employees or agents, for any injury to, or the death of, any person exercising, either on behalf of the Lessor or any prospective purchaser, the rights of inspection granted under this sentence. Any amounts earned in respect of the Equipment after the date of expiration of this Lease, but not exceeding the rental, per diem, or other similar charge for equipment received therefor, shall belong to the Lessor and, if received by the Lessee, shall be promptly turned over to the Lessor. In the event any Item of Equipment is not assembled, delivered and stored as hereinabove provided within 30 days after the expiration of this Lease, the Lessee shall, in addition, pay to the Lessor for each day thereafter an amount equal to the amount, if any, by which the higher of (i) an amount equal to 0.03889% of the Purchase Price of such Item of Equipment, or (ii) the Fair Rental Value (determined in the manner provided in Section 18 hereof) for such Item for each such day exceeds the amount, if any, received by the Lessor (either directly or from the Lessee) for such day for such Item pursuant to the preceding sentence. The assembling, delivery, storage and transporting of the Equipment as hereinbefore provided are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee to so assemble, deliver, store and transport the Equipment.

SECTION 14. DEFAULT.

14.1. Events of Default. Any of the following events shall constitute an Event of Default hereunder:

(a) Default shall be made in the payment of any part of the rental or Casualty Value provided in Section 2 or 11 hereof and such default shall continue for five business days;

(b) The Lessee shall make or permit any assignment or transfer of this Lease, or of possession of the Equipment, or any portion thereof not permitted by this Lease;

(c) Default shall be made in the observance or performance of any other of the covenants, conditions and agreements on the part of the Lessee contained herein and such default shall continue for 30 calendar days after written notice from the Lessor to the Lessee, specifying the default and demanding the same to be remedied;

(d) Any representation or warranty made by the Lessee herein or in the Participation Agreement or the Purchase Order Assignment or in any statement or certificate furnished to the Lessor or the Note Purchaser pursuant to or in connection with this Lease, the Participation Agreement or the Purchase Order Assignment is untrue in any material respect as of the date of issuance or making thereof;

(e) Any proceedings shall be commenced by or against the Lessee for any relief which includes, or might result in, any modification of the obligations of the Lessee hereunder, under any bankruptcy or insolvency law or laws relating to the relief of debtors, readjustments of indebtedness, reorganizations, arrangements, compositions or extensions (other than a law which does not permit any readjustments of the obligations of the Lessee hereunder), and, unless such proceedings shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), all the obligations of the Lessee under this Lease shall not have been duly assumed in writing, pursuant to a court order or decree, by a trustee or trustees or receiver or receivers appointed for the Lessee or for the property of the Lessee in connection with any such proceeding in such manner that such obligations shall have the same status as obligations incurred by such trustee or trustees or receiver or receivers, within 30 days after such appointment, if any, or 60 days after such proceedings shall have been commenced, whichever shall be earlier; or

(f) A petition for reorganization under Section 77 of the Bankruptcy Act, as now constituted or as said Section 77 is at any time amended, whether pursuant to the Bankruptcy Reform Act of 1978 or subsequent amendments thereof, shall be filed by or against the Lessee and, unless such petition shall have been dismissed, nullified, stayed or otherwise rendered ineffective (but then only so long as such stay shall continue in force or such ineffectiveness shall continue), all the obligations of the Lessee under this Lease shall not have been duly assumed in writing, pursuant to a court order or decree, by such trustee or trustees appointed in such proceedings in such manner that such obligations shall have the same status as obligations incurred by such trustee or trustees, within 30 days after such appointment, if any, or 60 days after such petition shall have been filed, whichever shall be earlier.

14.2. Remedies. If any Event of Default has occurred and is continuing, the Lessor or, in the event this Lease shall

be assigned to an assignee pursuant to Section 16 hereof, such assignee, at its option, may:

(a) Proceed by appropriate court action or actions, either at law or in equity, to enforce performance by the Lessee of the applicable covenants of this Lease or to recover damages for the breach thereof, including reasonable attorneys' fees; and/or

(b) By notice in writing to the Lessee, terminate this Lease, whereupon all right of the Lessee to the use of the Equipment shall absolutely cease and terminate as though this Lease had never been made, but the Lessee shall remain liable as hereinafter provided; and thereupon, the Lessor may by its agents enter upon the premises of the Lessee or other premises where any of the Equipment may be located and take possession of all or any of the Items of Equipment and thenceforth hold, possess and enjoy the same free from any right of the Lessee, or its successors or assigns, to use such Items for any purpose whatever, but the Lessor shall nevertheless have a right to recover from the Lessee any and all amounts which may have accrued to the date of such termination (computing the rental for any number of days less than a full rental period by multiplying the rental for such full rental period by a fraction of which the numerator is such number of days and the denominator is the total number of days in such full rental period) and also to recover forthwith from the Lessee (i) as damages for loss of the bargain and not as a penalty, whichever of the following amounts the Lessor, in its sole discretion, shall specify: (x) a sum with respect to each Item of Equipment which represents the excess of the present worth, at the time of such termination, of all rentals for such Item which would otherwise have accrued hereunder from the date of such termination to the end of the term of this Lease over the then present worth of the then Fair Rental Value of such Item for such period computed by discounting from the end of such term to the date of such termination rentals which the Lessor reasonably estimates to be obtainable for the use of such Item during such period, such present worth to be computed in each case on a basis of a 6% per annum discount, compounded quarterly from the respective dates upon which rentals would have been payable hereunder had this Lease not been terminated, or (y) an amount equal to the excess if any of the Casualty Value of such Item of Equipment as of the rent payment date on or immediately preceding the date of termination over the amount the Lessor reasonably estimates to be the Fair Market Value thereof at such time; provided, however, that in the event the Lessor shall have sold any Item of Equipment,

the Lessor, in lieu of collecting any amounts payable to the Lessor by the Lessee pursuant to the preceding clauses (x) and (y) of this part (i) with respect thereto may, if it shall so elect, demand that the Lessee pay the Lessor and the Lessee shall pay to the Lessor, on the date of such sale, as liquidated damages for loss of a bargain and not as a penalty, an amount equal to the excess, if any, of the Casualty Value of such Item of Equipment as of the rent payment date on or immediately preceding the date of termination over the net proceeds of such sale, and (ii) any damages and expenses, other than for a failure to pay rental, in addition thereto, including reasonable attorneys' fees, which the Lessor shall have sustained by reason of the breach of any covenant or covenants of this Lease other than for the payment of rental.

For purposes of Section 14.2 above, the Fair Rental Value and Fair Market Value for any Item of Equipment shall be determined in the manner provided for appraisal arrangements specified in Section 18.3(b) hereof; provided that any sale in a commercially reasonable manner of any Item of Equipment prior to any such determination shall conclusively establish the Fair Market Value of such Item and any rental in a commercially reasonable manner of any Item of Equipment prior to any such determination shall conclusively establish the Fair Rental Value of such Item.

14.3. Cumulative Remedies. The remedies in this Lease provided in favor of the Lessor shall not be deemed exclusive, but shall be cumulative and shall be in addition to all other remedies in its favor existing at law or in equity. The Lessee hereby waives any mandatory requirements of law, now or hereafter in effect, which might limit or modify any of the remedies herein provided, to the extent that such waiver is permitted by law. The Lessee hereby waives any and all existing or future claims of any right to assert any offset against the rent payments due hereunder, and agrees to make the rent payments regardless of any offset or claim which may be asserted by the Lessee on its behalf in connection with the lease of the Equipment.

14.4. Lessor's Failure to Exercise Rights. The failure of the Lessor to exercise the rights granted it hereunder upon any occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or upon the occurrence of any other contingencies.

14.5. Notice of Event of Default. The Lessee also agrees to furnish to the Lessor and the Note Purchaser, promptly upon any responsible officer becoming aware of any condition which constituted or constitutes an Event of Default under this Lease or which, after notice or lapse of time, or both, would constitute such an Event of Default, written notice specifying such condition

and the nature and status thereof. For the purposes of this Section 14.5 a "responsible officer" shall mean, with respect to the subject matter of any covenant, agreement or obligation of the Lessee in this Lease contained, any corporate officer of the Lessee who, in the normal performance of his operational responsibilities, should have knowledge of such matter and the requirements of this Lease with respect thereto.

SECTION 15. RETURN OF EQUIPMENT UPON DEFAULT.

15.1. Lessee's Duty to Return. If the Lessor or any assignee of the Lessor pursuant to Section 16 hereof shall terminate this Lease pursuant to Section 14 hereof, the Lessee shall forthwith deliver possession of the Equipment to the Lessor. For the purpose of delivering possession of any Item of Equipment to the Lessor as above required, the Lessee shall at its own cost, expense and risk (except as hereinafter stated):

(a) Forthwith remove such Equipment from any unit of railroad rolling stock to which such Equipment is attached and place such Equipment in such reasonable storage place on or adjacent to the Lessee's lines of railroad as the Lessor may designate or, in the absence of such designation, as the Lessee may select;

(b) Permit the Lessor to store such Equipment in such reasonable storage place on the Lessee's lines of railroad without charge for insurance, rent or storage until such Equipment has been sold, leased or otherwise disposed of by the Lessor and during such period of storage the Lessee shall continue to maintain all insurance required by Section 11.1 hereof; and

(c) Transport the Equipment to any place on the lines of railroad operated by the Lessee or to any connecting carrier for shipment, all as the Lessor may direct in writing.

All amounts earned in respect of the Equipment after the date of termination of this Lease, but not exceeding the rental, per diem, or other similar charge for equipment received therefor, shall belong to the Lessor or in the event this Lease has been assigned pursuant to Section 16 hereof, to such assignee, and, if received by the Lessee, shall be promptly turned over to the Lessor, or in the case of such assignment, to such assignee. In the event any Item of Equipment is not assembled, delivered and stored as hereinabove provided within 30 days after the termination of this Lease, the Lessee shall, in addition, pay to the Lessor or, in the case of such assignment, to such assignee for each day thereafter an amount equal to the amount, if any, by which the higher of (i) an

amount equal to 0.03889% of the Purchase Price of such Item of Equipment, or (ii) the Fair Rental Value (determined in the manner provided in Section 18 hereof) for such Item of Equipment for each such day exceeds the amount, if any, received by the Lessor or such assignee (either directly or from the Lessee) for such day for such Item pursuant to the preceding sentence.

15.2. Specific Performance. The assembling, delivery, storage and transporting of the Equipment as hereinbefore provided are of the essence of this Lease, and upon application to any court of equity having jurisdiction in the premises, the Lessor shall be entitled to a decree against the Lessee requiring specific performance of the covenants of the Lessee so to assemble, deliver, store and transport the Equipment.

15.3. Lessor Appointed Lessee's Agent. Without in any way limiting the obligation of the Lessee under the foregoing provisions of this Section 15, the Lessee hereby irrevocably appoints the Lessor as the agent and attorney of the Lessee, with full power and authority, at any time while the Lessee is obligated to deliver possession of any Items of Equipment to the Lessor, to demand and take possession of such Item in the name and on behalf of the Lessee from whomsoever shall be at the time in possession of such Item.

SECTION 16. ASSIGNMENTS BY LESSOR.

This Lease and all rent and all other sums due or to become due hereunder may be assigned in whole or in part by the Lessor without the consent of the Lessee, but the Lessee shall be under no obligation to any assignee of the Lessor except upon written notice of such assignment from the Lessor. Upon notice to the Lessee of any such assignment, the rent and other sums payable by the Lessee which are the subject matter of the assignment shall be paid to or upon the written order of the assignee. Without limiting the foregoing, the Lessee further acknowledges and agrees that (i) the rights of any such assignee in and to the sums payable by the Lessee under any provision of this Lease shall not be subject to any abatement whatsoever and shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever whether by reason of failure of or defect in the Lessor's title, or any interruption from whatsoever cause in the use, operation or possession of the Equipment or any part thereof, or any damage to or loss or destruction of the Equipment or any part thereof, or by reason of any other indebtedness or liability, howsoever and whenever arising, of the Lessor to the Lessee or to any other person, firm or corporation or to any governmental authority or for any cause whatsoever, it being the intent hereof that, except in the event of a wrongful act on the part of such assignee, the Lessee shall be unconditionally and absolutely obligated to pay such assignee all of the rents and other sums which are the subject matter of the assignment, (ii) said assignee shall, if an Event of Default, or any event which with the lapse of time or the giving of notice, or both, would

constitute such an Event of Default, shall have occurred and be continuing, have the sole right to exercise all rights, privileges and remedies (either in its own name or in the name of the Lessor for the use and benefit of said assignee) which by the terms of this Lease are permitted or provided to be exercised by the Lessor (except those rights, privileges and remedies relating to amounts payable to the Lessor pursuant to Sections 6, 10.2, 11.1 [with respect to public liability insurance] and 20.2 hereof which shall remain enforceable by the Lessor), but if no Event of Default or event which with the lapse of time or giving of notice, or both, would constitute an Event of Default, shall have occurred and be continuing, said assignee and the Lessor may each exercise their respective rights, privileges and remedies stated in this Lease to be provided for their respective benefits, and (iii) all obligations of the Lessor to the Lessee under this Lease shall be and remain enforceable by the Lessee against, and only against, the Lessor.

It is understood and agreed that the right, title and interest of any such assignee in, to and under this Lease and the rents and other sums due and to become due hereunder shall by the express terms granting and conveying the same be subject to the interest of the Lessee in and to possession of the Equipment so long as no Event of Default has occurred.

SECTION 17. ASSIGNMENTS BY LESSEE; USE AND POSSESSION.

17.1. Lessee's Rights to the Equipment. So long as no Event of Default, or any event which with the lapse of time or the giving of notice, or both, would constitute such an Event of Default, shall have occurred and be continuing, the Lessee shall be entitled to the possession and use of the Equipment in accordance with the terms of this Lease, but, without the prior written consent of the Lessor, the Lessee shall not assign, transfer or encumber its leasehold interest under this Lease in any of the Equipment. The Lessee shall not, without the prior written consent of the Lessor, part with the possession or control of, or suffer or allow to pass out of its possession or control, any of the Equipment, except to the extent permitted by the provisions of Section 17.2 hereof.

17.2. Use and Possession of Equipment. So long as the Lessee shall not be in default under this Lease, the Lessee shall be entitled to the possession of the Equipment and to the use thereof on or adjacent to lines of railroad owned or operated by it (either alone or jointly) or by any corporation, a majority of whose voting stock (i.e., having ordinary voting power for an election of a majority of its Board of Directors) is owned directly or indirectly by the Lessee and for such other uses as are normally made by the Lessee of maintenance of way equipment, but only upon and subject to all the terms and conditions of this Lease. Notwithstanding the foregoing, the Lessee shall at no time throughout the term of this Lease assign or permit the assignment of any Item of Equipment to service (including, without limitation, the regular

operation or maintenance thereof) outside the United States and Canada, and the Lessee agrees that the use of the Equipment outside the continental United States shall be de minimus. No assignment or sublease entered into by the Lessee hereunder shall relieve the Lessee of any liability or obligation hereunder which shall be and remain that of a principal and not a surety.

17.3. Merger, Consolidation or Acquisition of Lessee.

Nothing in this Section 17 shall be deemed to restrict the right of the Lessee to assign or transfer its leasehold interest under this Lease in the Equipment or possession of the Equipment to any corporation into or with which the Lessee shall have become merged or consolidated or which shall have acquired or leased all or substantially all of the lines of railroad of the Lessee, provided that such assignees, successors or transferees shall have duly assumed the obligations of the Lessee hereunder and that they will not, upon the effectiveness of such merger or consolidation or acquisition of properties and the assumption of such obligations, be in default under any provision of this Lease and that such merger or consolidation or acquisition of Properties shall not alter in any way the Lessee's obligations to the Lessor hereunder which shall be and remain those of a principal and not a surety.

SECTION 18. PURCHASE AND RENEWAL OPTIONS.

18.1. Initial Election. Provided that this Lease has not been earlier terminated and no Event of Default or Default shall have occurred and be continuing hereunder, the Lessee may by written notice delivered to the Lessor not less than (a) 180 days prior to the end of the original term hereof in respect of the Equipment, notify the Lessor that the Lessee irrevocably elects either that it shall offer to extend the term of this Lease or offer to purchase the Equipment, all on the basis hereinafter provided, (b) 180 days prior to the end of the first renewal term pursuant to Section 18.3 hereof, if any, of this Lease in respect of the Equipment, notify the Lessor that the Lessee irrevocably elects either that it shall offer to extend the term of this Lease in respect of the Equipment or elect to purchase the Equipment, all on the basis hereinafter provided, and (c) 180 days prior to the end of the second renewal term, if any, of this Lease in respect of the Equipment, notify the Lessor that the Lessee elects to purchase the Equipment on the basis hereinafter provided.

18.2. Option to Purchase. (a) The right of the Lessee as provided in Section 18.1 hereof to elect to purchase Items of Equipment shall apply to all, but not less than all, of the Items of Equipment whose term or renewal term is then expiring at a price equal to the "Fair Market Value" (as hereinafter defined). The written notice of Lessee's election to exercise the purchase option provided for in Section 18.1 hereof shall identify all of the Items of Equipment to be purchased. Payment of the option price shall be made to the Lessor at the place of payment specified

herein in funds current in Louisville against delivery of a bill of sale transferring and assigning to the Lessee all right, title and interest of the Lessor in and to such Items and containing a warranty against liens or claims of persons claiming by, through or under the Lessor except liens and claims which the Lessee assumed or is obligated to discharge under the terms of the Lease. The Lessor shall not be required to make any representation or warranty as to the condition of the Items of Equipment or any other matters.

18.3. Renewal Options. Provided that no Event of Default, or any event which with the lapse of time or the giving of notice, or both, would constitute such an Event of Default, shall have occurred and be continuing, the Lessee shall have the following renewal options:

(a) The Lessee shall have the option to renew and extend this Lease as to all, but not less than all, of the Items of Equipment then leased hereunder for two additional renewal terms of two years each upon and subject to the terms and conditions herein contained for the original term of this Lease; provided that the Fixed Rental payable for and during any such renewal term shall be an amount equal to the Fair Rental Value (as hereinafter defined) of such Items of Equipment and that the Casualty Value payable for and during any such renewal term in respect of any Item of Equipment suffering a Casualty Occurrence during such term shall be an amount equal to the higher of (i) the Fair Market Value of such Item of Equipment as of the beginning of such renewal term, or (ii) an amount equal to 20% of the Purchase Price of such Item of Equipment. Each renewal term shall commence immediately upon the expiration of the preceding term. The Lessee shall give the Lessor written notice of any such election 180 days prior to the commencement of any renewal term provided for in this Section 18.3; and

(b) The Fair Rental Value or Fair Market Value, as the case may be, of the Items of Equipment shall be determined on the basis of, and shall be equal in amount to, the value which would obtain in an arm's-length transaction between an informed and willing lessee or buyer, as the case may be (other than a lessee or buyer, as the case may be, currently in possession) and an informed and willing lessor or seller, as the case may be, under no compulsion to lease or sell, as the case may be. If on or before 90 days prior to the date of commencement of the renewal term elected by the Lessee, the Lessor and the Lessee are unable to agree upon a determination of the Fair Rental Value or the Fair Market Value of such Items of Equipment, such value shall be determined in accordance

with the foregoing definition by a qualified independent Appraiser. The term "Appraiser" shall mean any independent appraiser mutually agreed upon by the Lessor and the Lessee or if no such mutual agreement is reached within 15 days after the beginning of such 90-day period, two independent appraisers, one chosen by the Lessor and one chosen by the Lessee, or, if such appraisers cannot agree on the amount of such value within 60 days prior to the date of commencement of the renewal term elected by the Lessee, an independent appraiser to be chosen by the American Arbitration Association promptly thereafter. The Appraiser shall be instructed to make such determination within a period of 30 days following appointment, and shall promptly communicate such determination in writing to the Lessor and the Lessee. The determination so made shall be conclusively binding upon both the Lessor and the Lessee. The expenses and fees of the Appraiser shall be borne by the Lessee.

18.4. Delivery of Equipment. Unless the Lessee has elected to purchase the Items of Equipment then leased hereunder or to renew this Lease in respect of such Items of Equipment as provided in this Section 18, all of such Items of Equipment shall be returned to the Lessor at the end of the original term, or the then current renewal term, as the case may be, in accordance with Section 13 hereof.

SECTION 19. INTEREST ON OVERDUE RENTALS AND AMOUNT PAID BY LESSOR.

Anything to the contrary herein contained notwithstanding any nonpayment of rent due hereunder, or amounts expended by the Lessor on behalf of the Lessee, shall result in the additional obligation on the part of the Lessee to pay interest in an amount equal to two percent above Central Penn National Bank's prime short-term commercial rate to its best customers as that rate shall vary from time to time, with said rate fixed each quarter on the date of the previous Fixed Rental payment date on the overdue rentals and amounts expended for the period of time during which they are overdue or expended and not repaid.

SECTION 20. MISCELLANEOUS.

20.1. Notices. Any notice required or permitted to be given by either party hereto to the other shall be deemed to have been given when deposited in the United States certified mails, first class, postage prepaid, addressed as follows:

If to the Lessor:	First National Bank of Louisville
	P. O. Box 36040
	Louisville, Kentucky 40232
	Attention: Mr. William F. Stites
	Senior Vice President

Payments to the Lessor hereunder
to be made by wire transfer
as follows:

First National Bank of
Louisville
Attention: Leasing Department

If to the Note
Purchaser:

Central Penn National Bank
5 Penn Center Plaza
Philadelphia, Pennsylvania 19103
Attention:

If to the Lessee:

Consolidated Rail Corporation
1310 Six Penn Center
Philadelphia, Pennsylvania 19104
Attention: Vice President and
Treasurer

or addressed to any such party at such other address as such
party shall hereafter furnish to such other parties in writing.

20.2. Right of Lessor to Perform. If the Lessee shall fail to comply with any of its covenants herein contained, either the Lessor or, in the case of an assignment by the Lessor pursuant to Section 16 hereof, the assignee thereunder (including, without limitation, the Note Purchaser) may, but shall not be obligated to, make advances to perform the same and to take all such action as may be necessary to obtain such performance. Any payment so made by any such party and all cost and expense (including, without limitation, reasonable attorneys' fees and expenses) incurred in connection therewith shall be payable by the Lessee to the party making the same upon demand as additional rent hereunder, with interest at the rate per annum for overdue rentals as set forth in Section 19 hereof.

20.3. Execution in Counterparts. This Lease, and any lease supplemental hereto, may be executed in several counterparts, each of which so executed shall be deemed to be an original and in each case such counterparts shall constitute but one and the same instrument.

20.4. Law Governing. This Lease shall be construed in accordance with the laws of the Commonwealth of Kentucky; provided, however, that the parties shall be entitled to all rights conferred by any applicable Federal statute, rule or regulation.

20.5. Headings and Table of Contents. All Section headings and the Table of Contents are inserted for convenience only and shall not affect any construction or interpretation of this Lease.

20.6. Severability. Any provision of this Lease which is prohibited or unenforceable in any jurisdiction shall be as to such jurisdiction ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provisions in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed by their respective officers thereunder duly authorized and the corporate seals to be hereto affixed as of the day and year first above written.

FIRST NATIONAL BANK OF LOUISVILLE

[CORPORATE SEAL]

By _____
Its _____

ATTEST:

Secretary

CONSOLIDATED RAIL CORPORATION

By 
Its Asst. Treas. & Cons.

[CORPORATE SEAL]

ATTEST:


ASSISTANT Secretary

COMMONWEALTH OF KENTUCKY

COUNTY OF JEFFERSON

)
) SS
)

On this ____ day of November, before me personally appeared _____, to me personally known, who being by me duly sworn, says that he is the _____ of First National Bank of Louisville, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Notary Public

[NOTARIAL SEAL]

My commission expires:

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF PHILADELPHIA

)
) SS
)

On this 13th day of November, before me personally appeared H. St. Brown, to me personally known, who being by me duly sworn, says that he is the Asst. Treasurer Spending & Collections of Consolidated Rail Corporation, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Eileen C. Baker

Notary Public

[NOTARIAL SEAL]

My commission expires:

EILEEN C. BAKER
Notary Public Philadelphia, Philadelphia Co.
My Commission Expires October 11, 1982

DESCRIPTION OF ITEMS OF EQUIPMENT

<u>Number of Items</u>	<u>Description</u>	<u>Manufacturer and Manufacturer's Identification Nos.</u>
13	Backhoes	J. I. Case Co. EF 5617 to 5629
4	Hi Rail Truck Cranes	Stanley H. Smith & Co. CT 1553 to 1556
2	Crawler Cranes	Stanley H. Smith & Co. CC 1052 to 1053
3	Rerailing Cranes	Pettibone Ohio Corp. S 3065 to 3067
4	Switch Tamperers	Plasser American Corp. MP 5042 to 5045
3	Ballast Regulators	Plasser American Corp. BR 1297 to 1299
6	Spike Pullers	Rexnord Inc. SP 2115 to 2120
10	Push Trucks	Quaker RR Equipment Sales Corp. PL 1502 to 1511
2	Rotary Dump Trucks	Bankhead Enterprises ET 2004 to 2005
7	Excavators	Stewart Equipment Company EG 3004 to 3010
7	Hi Rail Gears	Bankhead Enterprises EG 3004 to 3010

Place of Delivery: As designated in applicable
Purchase Orders

Outside Delivery Date: December 31, 1979

(Conrail 79-1)

CERTIFICATE OF ACCEPTANCE
UNDER EQUIPMENT LEASE

TO: First National Bank of Louisville
(the "Lessor")

(the "Manufacturer")

1. The undersigned, a duly appointed and authorized representative of Consolidated Rail Corporation (the "Lessee") under the Equipment Lease dated as of July 31, 1979 between the Lessor and the Lessee, does hereby certify that he has inspected, received, approved and accepted delivery under the Lease of the following Items of Equipment:

TYPE OF EQUIPMENT:

PLACE ACCEPTED:

DATE ACCEPTED:

NUMBER OF UNITS:

MARKED AND NUMBERED:

2. He does further certify that the foregoing Items of Equipment are in good order and condition, and appear to conform to the specifications applicable thereto, that the Lessee has no knowledge of any defect in any of the foregoing Items of Equipment with respect to design, manufacture, condition or in any other respect, and that each Item has been labeled by means of a plate or a stencil printed in contrasting colors upon each side of the Item in letters not less than one inch in height as follows:

"Leased from First National Bank of
Louisville, as Owner, and Subject to a
Security Interest."

3. The undersigned duly authorized representative of the Lessee certifies that each Item of Equipment described herein has not been placed in service by the Lessee or any other person so as to preclude "the original use of such property" within the meaning of Sections 38(b) and 167(c)(2) of the Internal Revenue Code of 1954, as amended from commencing with the Lessor.

(Conrail 79-1)

SCHEDULE B
(to Equipment Lease)

The execution of this Certificate will in no way relieve or decrease the responsibility of the Manufacturer for any warranties it has made with respect to the Equipment.

Dated: _____, 19__

Inspector and Authorized
Representative of the Lessee,
and signing as to the matters
in paragraphs 1 and 2 above

CONSOLIDATED RAIL CORPORATION,
Lessee, and signing as to the
matters in paragraph 3 above

By _____
Its _____

SCHEDULE OF CASUALTY VALUE

The Casualty Value for an Item of Equipment payable on the Term Lease Commencement Date or any Fixed Rental payment date thereafter shall mean an amount equal to the percent of the Purchase Price plus the amount of any Alterations included in gross income by the Lessor pursuant to Section 7 of the Lease of such Item set forth opposite such date in the following schedule (as the same may be increased pursuant to Annex 1 to this Schedule C):

<u>Term Lease Commencement Date or Number of Fixed Rental Payment Date on which Casualty Value is Paid</u>	<u>Percentage of Purchase Price Payable as Casualty Value</u>
Term Lease Commencement Date	85.6578
1	84.4467
2	83.1363
3	81.7349
4	80.2403
5	78.6661
6	77.0036
7	75.2562
8	73.4220
9	71.5083
10	69.5121
11	67.4336
12	65.2706
13	63.0272
14	60.7079
15	58.3094
16	55.8296
17	53.2686
18	50.6394
19	47.9346
20	45.1522
21	42.2885
22	39.3652
23	36.3706
24	33.2941
25	30.1198
26	26.8957
27	23.6063
28	20.0000

(Conrail No. 79-1)

SCHEDULE C
(to Equipment Lease)

ANNEX 1 TO SCHEDULE C
(to Equipment Lease)

The percentages set forth in Table 1 to this Schedule C have been computed without regard to recapture of the Investment Credit provided for in Section 38 and related sections of the Internal Revenue Code of 1954, as amended. Consequently, the Casualty Value of any Item of Equipment suffering a Casualty Occurrence on or before the third, fifth or seventh anniversary of the date of delivery and acceptance of such Item shall be increased by the applicable percentage of the Purchase Price set forth below:

<u>Anniversary of Delivery and Acceptance</u>	<u>Percentage of Purchase Price</u>
3	18.5185
5	12.3457
7	6.1728